

State of Idaho  
Dirk Kempthorne, Governor

# **General Fund Revenue Book**

**FY 2007 Executive Budget  
January 2006**

- Economic Forecast
- Revenue Projections
- Tax Structure

Prepared by the Division of Financial Management

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# INTRODUCTION

The basis for most of the revenue projections made in this book is the *Idaho Economic Forecast* published by the Division of Financial Management (DFM), which in turn is based on the Idaho Economic Model (IEM)<sup>1</sup>. Each major revenue category (personal income tax, sales tax, and corporate income tax) is specified as a function of relevant explanatory variables.

Although the revenue model is specified in precise quantitative terms, two levels of uncertainty exist. The first of these uncertainties is associated with the statistical process itself and hence may be reduced to probabilities and confidence intervals. The other is related to the uncertainties associated with unknown future events. Weather effects on agriculture are a classic example. A forecast of agricultural production must either assume average weather or project some specific future weather condition. The forecast is contingent upon that assumed weather pattern actually occurring. Some other weather pattern will result in a different outcome for both farmers and the myriad of entities dependent upon the fortunes of farmers.

The contingent nature of an agricultural model demonstrates the uncertainty associated with any model containing exogenous variables. Both sources of forecast error are present in any model that is dependent on explanatory variables. Since most of Idaho's revenue sectors depend heavily on Idaho income levels, the revenue forecast is particularly sensitive to those factors that influence Idaho's income.

The major foundation of the IEM is economic base theory. Idaho's economy can be divided into "basic" and "domestic" activities (also known as "export" and "residential"). The basic activities, such as agriculture, forestry, mining, manufacturing, tourism, and exported services are characterized by a major dependence on external forces; while domestic activities like construction, trade, local services, and public utilities are characterized by a dependence on influences from within the State. The idea is that basic activities form the foundation of Idaho's level of economic activity, while domestic activities essentially follow from basic activities. While not a perfect theory, economic base theory does serve as a useful means of identifying the driving forces behind Idaho's overall level of economic activity.

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<sup>1</sup> The IEM is in turn based on the Global Insight Quarterly Model of the U.S. Economy. Descriptions of both are available in the current *Idaho Economic Forecast*, Division of Financial Management.



## *Idaho Economic Forecast*

The following tables and text are taken from the  
January 2006 *Idaho Economic Forecast*,  
a publication produced by the  
Division of Financial Management.





## EXECUTIVE SUMMARY

Idaho's robust economic growth at the beginning of last year and steady growth since then virtually guarantee 2005 was one of the best years in recent memory. Idaho nonfarm employment started the year by growing at a 6.6% annual rate—its strongest showing since the third quarter of 1993. Total employment also topped the 600,000-job threshold in the same quarter. Much of this strength reflected the red-hot construction sector that was creating jobs almost five times faster than during last year's first quarter. Fueling the jump in construction jobs was housing starts in the Gem State, which advanced at an incredible 62.7% annual pace. Boosted by the strong job gain, Idaho nominal personal income grew by a healthy 8.6% annual pace in the first quarter of 2005. Adjusted for inflation, Idaho personal income rose 6.2% in the first quarter of 2005. After enjoying an incredible first quarter, Idaho's economy settled into more sustainable growth during the second quarter of 2005. Idaho nonfarm employment increased at a 2.5% rate. Idaho nominal personal income increased 6.7% in the second quarter while Idaho real personal income grew about half as fast. Idaho nonfarm employment is expected to advance just over 2% in both quarters of the second half of 2005. If this forecast holds, Idaho nonfarm employment will have grown 3.7% in 2005, which would be its best year since 2000. Idaho nominal personal income should rise 7.2%, and real personal income should increase 4.3%. Idaho's economy should continue to grow, but not match the high-water mark it set in 2005. Idaho nonfarm employment should average about 2% growth per year during the 2006-2009 period, raising employment to 661,700 jobs in the terminal year of the forecast. Idaho nominal personal income is forecast to increase 6.4% annually. It is predicted Idaho real personal income will grow 4.1% per year.

It appears the U.S. economy came through this year's record hurricane season in better shape than had been expected. One of the reasons the economy performed well is because it headed into the fall in such strong shape. Fortunately, the damage has been temporary. Nonfarm employment was virtually flat in both September and October, but the employment picture improved in November 2005 with the addition of 215,000 jobs. The national unemployment rate remained below 5% in November 2005. Beginning in 2006, the negative impacts of the storms of 2005 are replaced with the positive influences associated with the rebuilding efforts. For example, this forecast assumes an additional 150,000 housing starts over the next three to four years to replace units destroyed or rendered uninhabitable by the hurricanes and floods. Real GDP is expected to expand 3.4% in 2006, 3.1% in 2007, 3.4% in 2008, and 3.1% in 2009. With the economy once again on solid ground, the nation's central bank will continue raising the federal funds rate in 25-basis point increments through the first half of 2006. The forecast also assumes the existing home mortgage interest rate will rise from 5.9% in 2005 to 7.3% in 2009. The higher interest rates contribute to the gradual decline in U.S. housing starts from 2.1 million units in 2005 to 1.7 million units in 2009. Although the U.S. economy is not expected over the forecast period to replicate 2005's strong showing, growth during the four years following 2005 should be stronger than in the four years preceding it. For example, real output growth averaged 2.3% from 2000 to 2004. It is forecast to be 3.3% over the 2006-2009 period. Employment and real personal income also grow more rapidly in the end of the decade than in the beginning. While the predicted national economic growth is not spectacular, it will be respectable.

**IDAHO ECONOMIC FORECAST  
EXECUTIVE SUMMARY  
JANUARY 2006**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>GDP (BILLIONS)</b>												
Current \$	8,747	9,268	9,817	10,128	10,470	10,971	11,734	12,486	13,248	13,920	14,704	15,517
% Ch	5.3%	6.0%	5.9%	3.2%	3.4%	4.8%	7.0%	6.4%	6.1%	5.1%	5.6%	5.5%
2000 Chain-Weighted	9,067	9,470	9,817	9,891	10,049	10,321	10,756	11,140	11,522	11,876	12,278	12,658
% Ch	4.2%	4.4%	3.7%	0.8%	1.6%	2.7%	4.2%	3.6%	3.4%	3.1%	3.4%	3.1%
<b>PERSONAL INCOME - CURR \$</b>												
Idaho (Millions)	27,287	29,068	31,290	33,054	33,823	34,660	37,394	40,084	42,918	45,566	48,336	51,307
% Ch	7.6%	6.5%	7.6%	5.6%	2.3%	2.5%	7.9%	7.2%	7.1%	6.2%	6.1%	6.1%
Idaho Nonfarm (Millions)	26,350	28,054	30,448	32,039	32,906	33,915	36,286	38,969	41,838	44,423	47,187	50,149
% Ch	7.1%	6.5%	8.5%	5.2%	2.7%	3.1%	7.0%	7.4%	7.4%	6.2%	6.2%	6.3%
U.S. (Billions)	7,423	7,802	8,430	8,724	8,882	9,169	9,713	10,269	10,938	11,583	12,269	12,990
% Ch	7.3%	5.1%	8.0%	3.5%	1.8%	3.2%	5.9%	5.7%	6.5%	5.9%	5.9%	5.9%
<b>PERSONAL INCOME - 2000 \$</b>												
Idaho (Millions)	28,429	29,788	31,289	32,376	32,666	32,846	34,542	36,015	37,669	39,290	40,797	42,323
% Ch	6.6%	4.8%	5.0%	3.5%	0.9%	0.6%	5.2%	4.3%	4.6%	4.3%	3.8%	3.7%
Idaho Nonfarm (Millions)	27,452	28,748	30,447	31,382	31,780	32,140	33,517	35,012	36,721	38,305	39,827	41,368
% Ch	6.1%	4.7%	5.9%	3.1%	1.3%	1.1%	4.3%	4.5%	4.9%	4.3%	4.0%	3.9%
U.S. (Billions)	7,734	7,996	8,429	8,545	8,578	8,689	8,973	9,227	9,600	9,987	10,355	10,715
% Ch	6.4%	3.4%	5.4%	1.4%	0.4%	1.3%	3.3%	2.8%	4.1%	4.0%	3.7%	3.5%
<b>HOUSING STARTS</b>												
Idaho	10,104	10,334	11,469	12,181	13,181	16,300	18,484	23,105	20,055	19,870	19,370	18,495
% Ch	14.0%	2.3%	11.0%	6.2%	8.2%	23.7%	13.4%	25.0%	-13.2%	-0.9%	-2.5%	-4.5%
U.S. (Millions)	1.621	1.647	1.573	1.601	1.710	1.854	1.950	2.061	1.873	1.838	1.813	1.739
% Ch	9.9%	1.6%	-4.5%	1.8%	6.8%	8.4%	5.2%	5.7%	-9.1%	-1.8%	-1.4%	-4.1%
<b>TOTAL NONFARM EMPLOYMENT</b>												
Idaho	520,478	538,103	558,583	568,030	568,023	572,515	588,033	609,974	622,677	635,132	648,975	661,695
% Ch	2.6%	3.4%	3.8%	1.7%	0.0%	0.8%	2.7%	3.7%	2.1%	2.0%	2.2%	2.0%
U.S. (Thousands)	125,924	128,992	131,792	131,833	130,345	129,999	131,475	133,616	135,693	137,599	139,332	140,715
% Ch	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.6%	1.6%	1.4%	1.3%	1.0%
<b>SELECTED INTEREST RATES</b>												
Federal Funds	5.4%	5.0%	6.2%	3.9%	1.7%	1.1%	1.3%	3.2%	4.7%	4.8%	4.8%	5.0%
Bank Prime	8.4%	8.0%	9.2%	6.9%	4.7%	4.1%	4.3%	6.2%	7.7%	7.8%	7.8%	8.0%
Existing Home Mortgage	7.1%	7.3%	8.0%	7.0%	6.5%	5.7%	5.7%	5.9%	6.8%	6.9%	7.0%	7.3%
<b>INFLATION</b>												
GDP Price Deflator	1.1%	1.4%	2.2%	2.4%	1.7%	2.0%	2.6%	2.8%	2.6%	1.9%	2.2%	2.4%
Personal Cons Deflator	0.9%	1.7%	2.5%	2.1%	1.4%	1.9%	2.6%	2.8%	2.4%	1.8%	2.2%	2.3%
Consumer Price Index	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	2.6%	1.5%	2.0%	2.2%

**National Variables Forecast by GLOBAL INSIGHT  
Forecast Begins the THIRD Quarter of 2005**

**IDAHO ECONOMIC FORECAST  
EXECUTIVE SUMMARY  
JANUARY 2006**

	2005				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>GDP (BILLIONS)</b>												
Current \$	12,199	12,378	12,590	12,778	12,999	13,176	13,330	13,487	13,644	13,823	14,007	14,207
% Ch	7.0%	6.0%	7.0%	6.1%	7.1%	5.6%	4.7%	4.8%	4.8%	5.3%	5.4%	5.8%
2000 Chain-Weighted	10,999	11,089	11,193	11,277	11,385	11,481	11,569	11,653	11,726	11,822	11,923	12,032
% Ch	3.8%	3.3%	3.8%	3.0%	3.9%	3.4%	3.1%	2.9%	2.6%	3.3%	3.4%	3.7%
<b>PERSONAL INCOME - CURR \$</b>												
Idaho (Millions)	39,271	39,914	40,079	41,070	41,804	42,599	43,307	43,963	44,607	45,267	45,885	46,503
% Ch	8.6%	6.7%	1.7%	10.3%	7.3%	7.8%	6.8%	6.2%	6.0%	6.0%	5.6%	5.5%
Idaho Nonfarm (Millions)	37,988	38,770	39,084	40,032	40,779	41,515	42,220	42,840	43,454	44,102	44,740	45,397
% Ch	4.6%	8.5%	3.3%	10.1%	7.7%	7.4%	7.0%	6.0%	5.9%	6.1%	5.9%	6.0%
U.S. (Billions)	10,073	10,221	10,293	10,488	10,683	10,858	11,029	11,183	11,340	11,499	11,661	11,830
% Ch	2.0%	6.0%	2.8%	7.8%	7.6%	6.7%	6.5%	5.7%	5.7%	5.7%	5.8%	5.9%
<b>PERSONAL INCOME - 2000 \$</b>												
Idaho (Millions)	35,722	36,013	35,836	36,488	36,921	37,468	37,938	38,349	38,747	39,129	39,476	39,809
% Ch	6.2%	3.3%	-2.0%	7.5%	4.8%	6.1%	5.1%	4.4%	4.2%	4.0%	3.6%	3.4%
Idaho Nonfarm (Millions)	34,555	34,981	34,946	35,566	36,016	36,515	36,986	37,369	37,745	38,123	38,491	38,862
% Ch	2.3%	5.0%	-0.4%	7.3%	5.2%	5.7%	5.3%	4.2%	4.1%	4.1%	3.9%	3.9%
U.S. (Billions)	9,163	9,222	9,203	9,318	9,435	9,550	9,662	9,755	9,850	9,940	10,032	10,127
% Ch	-0.3%	2.6%	-0.8%	5.1%	5.1%	5.0%	4.8%	3.9%	4.0%	3.7%	3.8%	3.8%
<b>HOUSING STARTS</b>												
Idaho	23,211	22,591	24,814	21,802	20,396	19,986	19,893	19,944	19,951	19,926	19,847	19,755
% Ch	62.7%	-10.3%	45.6%	-40.4%	-23.4%	-7.8%	-1.9%	1.0%	0.1%	-0.5%	-1.6%	-1.8%
U.S. (Millions)	2,083	2,044	2,069	2,047	1,967	1,861	1,833	1,829	1,830	1,839	1,839	1,844
% Ch	24.2%	-7.2%	5.0%	-4.2%	-14.8%	-19.8%	-5.9%	-0.9%	0.3%	2.0%	0.0%	1.0%
<b>TOTAL NONFARM EMPLOYMENT</b>												
Idaho	604,587	608,403	611,745	615,160	618,309	621,477	624,225	626,694	630,081	633,354	636,752	640,339
% Ch	6.6%	2.5%	2.2%	2.3%	2.1%	2.1%	1.8%	1.6%	2.2%	2.1%	2.2%	2.3%
U.S. (Thousands)	132,814	133,429	133,961	134,261	134,876	135,460	135,958	136,479	136,911	137,373	137,818	138,291
% Ch	1.6%	1.9%	1.6%	0.9%	1.8%	1.7%	1.5%	1.5%	1.3%	1.4%	1.3%	1.4%
<b>SELECTED INTEREST RATES</b>												
Federal Funds	2.5%	2.9%	3.5%	4.0%	4.4%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Bank Prime	5.4%	5.9%	6.4%	7.0%	7.4%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Existing Home Mortgage	5.8%	5.8%	5.8%	6.2%	6.5%	6.8%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%
<b>INFLATION</b>												
GDP Price Deflator	3.1%	2.6%	3.1%	2.8%	3.1%	2.1%	1.6%	1.8%	2.1%	2.0%	1.9%	2.0%
Personal Cons Deflator	2.3%	3.3%	3.7%	2.6%	2.4%	1.7%	1.6%	1.7%	1.7%	2.0%	1.9%	2.0%
Consumer Price Index	2.4%	4.2%	5.1%	3.2%	2.4%	1.2%	1.2%	1.3%	1.4%	1.7%	1.7%	1.8%

**National Variables Forecast by GLOBAL INSIGHT  
Forecast Begins the THIRD Quarter of 2005**

## NATIONAL FORECAST DESCRIPTION

### **The Forecast Period is the Third Quarter of 2005 through the Fourth Quarter of 2009**

It appears the U.S. economy came through this year's record hurricane season in better shape than had been expected. One of the reasons the economy performed well is because it headed into the fall in such strong shape. For example, real GDP grew at a healthy 4.5% clip (revised up from the preliminary estimate of 3.8%) in 2005's third quarter. Other measures also confirm the economy's strength. National nonfarm employment expanded an average of 198,000 jobs per month from the end of 2004 to August 2005 and the national unemployment rate improved from 5.1% to 4.8% over the same period.

The hurricanes did have impacts on the economy. One the most immediate and widespread impacts was the price of gasoline. Almost over night the price shot above \$3 per gallon after Hurricane Katrina shut down Gulf of Mexico petroleum refineries. Fortunately, the damage has been temporary. Experts expected the price to fall to \$2.50 per gallon by year's end. However, gasoline prices declined faster than anticipated, dropping below \$2 per gallon well before the end of 2005. Nonfarm employment was virtually flat in both September and October, but the employment picture improved in November 2005 with the addition of 215,000 jobs. The national unemployment rate remained below 5% in November 2005. Although official estimates for real GDP in the fourth quarter of 2005 are not available, the expectations for national output have improved. For example, in the previous issue of the *Idaho Economic Forecast*, real output was projected to grow at 2.8% annual pace in the last quarter of 2005. Real GDP is now expected to grow 3% in that quarter.

Beginning in 2006, the negative impacts of the storms of 2005 are replaced with the positive influences associated with the rebuilding efforts. For example, this forecast assumes an additional 150,000 housing starts over the next three to four years to replace units destroyed or rendered uninhabitable by the hurricanes and floods. It has been estimated the government's costs of rebuilding the areas hardest hit by the hurricanes will temporarily delay improvements to the federal deficit. However, this additional spending will boost the economy in the near term. Real GDP is expected to expand 3.4% in 2006, 3.1% in 2007, 3.4% in 2008, and 3.1% in 2009. Consumer price inflation jumped 3.4% in 2005 because of surging energy prices. Eventually energy prices will recede and inflation will once again drop below 3%. With the economy once again on solid ground, the nation's central bank will continue raising the federal funds rate in 25-basis point increments through the first half of 2006. The forecast also assumes the existing home mortgage interest rate will rise from 5.9% in 2005 to 7.3% in 2009. The higher interest rates contribute to the gradual decline in U.S. housing starts from 2.1 million units in 2005 to 1.7 million units in 2009.

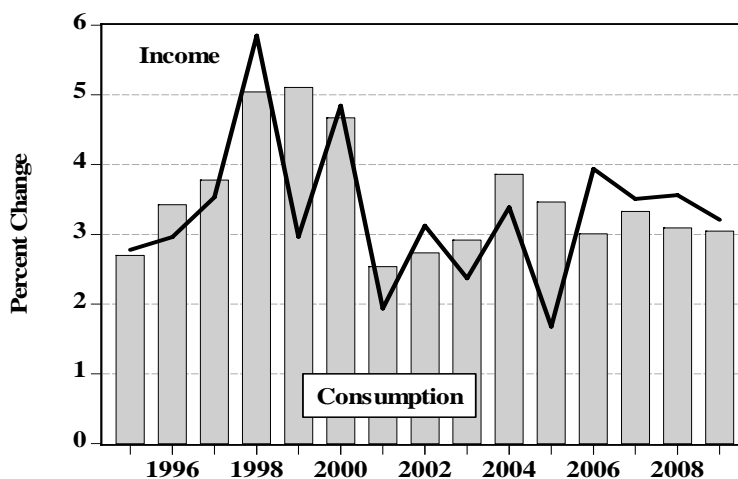
Although the U.S. economy is not expected over the forecast period to replicate 2005's strong showing, growth during the four years following 2005 should be stronger than in the four years preceding it. For example, real output growth averaged 2.3% from 2000 to 2004. It is forecast to be 3.3% over the 2006-2009 period. Employment and real personal income also grow more rapidly in the end of the decade than in the beginning. While the predicted economic growth is not spectacular, it will be respectable.

## SELECTED NATIONAL ECONOMIC INDICATORS

**Consumer Spending:** Real consumer spending should provide less of a boost to the economy than it has in the recent past. This is a significant change. In each year from 2000 through 2002, real consumer spending grew at least one percentage point faster than real GDP. Thanks to the strong spending, the 2001 recession was mild by historical standards. The gap between spending growth and output growth began to narrow as the current expansion took off. However, after posting gains of 3.9% in 2004 and 3.5% in 2005, real consumer spending is expected to downshift to 3.0% in 2006 in response to rising interest rates and the cooling housing market. The first

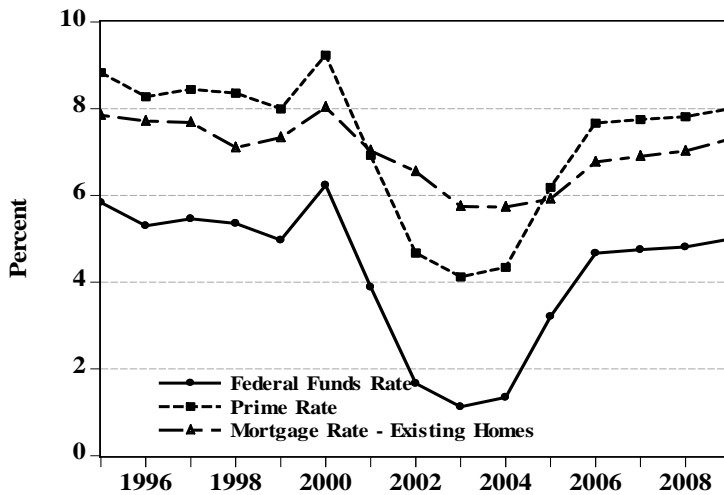
signs of slower spending were actually expected in the last quarter of 2005. After growing by 3.9% annual rate in last year's third quarter, real spending was estimated to move just 0.1% in the last quarter of 2005. This pause in spending is due to the sharp drop-off in light-vehicle sales following the end of automakers' recent "employee discount pricing" marketing campaigns. It is anticipated light-vehicle sales will drop from an annual rate of 17.9 million units in the third quarter of 2005 to 15.7 million units in the last quarter, with light trucks accounting for most of the drop. On an annual basis, light-vehicle sales are expected to fall from 16.8 million units in 2005 to 16.5 million units in 2006, its weakest showing since 1998. Market saturation is another concern for the automotive sector. From 2001 to 2005, the stock of vehicles has risen 2.2% annually, which is much faster than the 1.2% growth of the driving-age population. Car companies are not taking this situation sitting down, and have already implemented their latest incentive programs. Light vehicle sales should gradually recover after 2006 in response to rising real incomes, but it will be 2009 before total sales surpass their previous cyclical peak of 17.3 million units. Near-term consumer spending will be impacted by household budgets stretched thin by rising energy costs. It has been estimated the share of household disposable income spent on energy will climb to a two-decade high of 5.9%. The price of gasoline has retreated from its post-Katrina peak, but persistently high natural gas prices will cause sticker shock this winter. The share of disposable income devoted to energy should decrease as the oil and natural gas supply situation eases over the next three years. The cooling housing market will also limit consumer spending. Consumers have been willing to save less (and spend more) because rising housing prices served as a kind of savings account that grew without making deposits. Consumers also tapped into their home equity in order to finance their recent spending spree. The forecast of slower housing appreciation suggest this source of financing has run its course. After years of adding debt and emptying their savings, consumers will have to live within their means. As a result, real spending is expected to grow more in line with disposable income than it has in the recent past. Real disposable income is anticipated to increase 1.7% in 2005, 3.9% in 2006, 3.5% in 2007, 3.6% in 2008, and 3.2% in 2009. Real consumer spending should grow 3.5% in 2005, 3.0% in 2006, 3.3% in 2007, 3.1% in 2008, and 3.0% in 2009.

### U.S. Real Consumption and Disposable Income Growth



Source: Global Insight

### Selected U.S. Interest Rates



Source: Global Insight

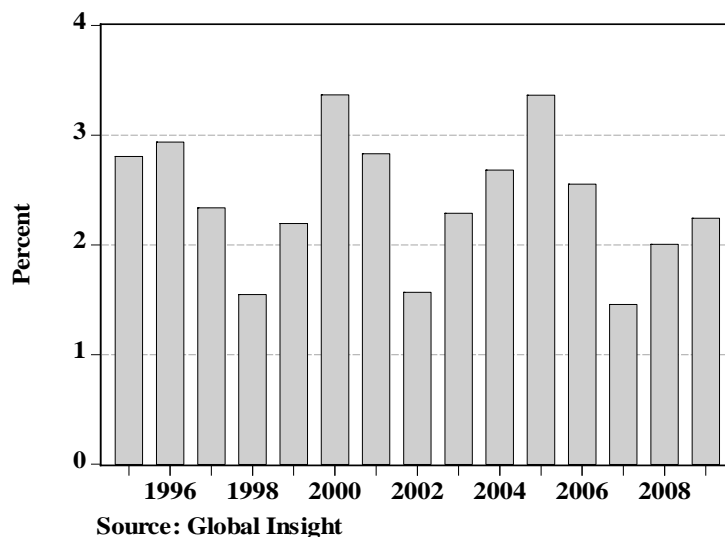
**Financial Markets:** President Bush appointed Ben Bernanke to replace outgoing Federal Reserve Chairman Alan Greenspan. It is assumed Bernanke will be confirmed by the Senate and start his new job on February 1, 2006. Will the changing of the guard at the central bank bring a change in monetary policy? Not likely. Bernanke and Alan Greenspan are more similar than they are different. Both are “big idea” people who are not afraid to question the conventional wisdom. For example, Greenspan was an early convert to the “new economy” and was quick to recognize the productivity boom of the 1990s. Bernanke identified the risks of deflation in late 2002. More recently, he suggested the global savings glut was the

reason for Alan Greenspan’s conundrum of low long-term interest rates despite rising short-term rates. With respect to monetary policy, both men believe the Federal Reserve should be flexible, activist, and gradualist. Importantly, both believe the Federal Reserve should not take pre-emptive actions against bubbles, but, instead, should be aggressive in damage control after the bubbles have burst. Although the outgoing and incoming chairmen agree on many things, they do not agree on everything. Perhaps the biggest difference of opinion between the two is over inflation targeting. Bernanke is an advocate of explicit inflation targeting. Alan Greenspan believes setting explicit inflation targets are not a good idea because they could limit the flexibility of the Federal Reserve. While explicit inflation targeting by the Federal Reserve is unlikely (given it would require an act of Congress), the incoming Chairman is likely to encourage the Federal Open Market Committee to be open about its implicit inflation targets and more transparent about how it chooses to achieve those targets than the outgoing Chairman. Given the strength of the economy and increasing concerns about creeping inflation, it is assumed the Federal Reserve will continue raising its bellwether federal funds rate in 25-basis points increments to 4.75% at the end of March 2006, before taking an extended pause. The Federal Reserve is expected to adjust the federal funds rate upwards by an additional 25 basis points in late 2008, and it will remain at 5.00% for the remainder of the forecast. The rising interest rates may help slow the U.S. dollar’s recent decline, but it will not reverse it because of the heavy downward pressure from the nation’s huge trade deficit. Specifically, the greenback is forecast to fall 2% in 2005, 2.5% in 2006, 6.0% in 2007, 3.6% in 2008, and appreciate 2.1% in 2009. After averaging just below 6% for nearly three years, the 30-year fixed mortgage rate is expected to move upwards to 7.3% by 2007.

**Inflation:** The inflation outlook has improved slightly. Short-term inflation fears were calmed in late 2005, as crude oil and gasoline prices retreated faster than had been anticipated from their post-hurricane spikes. In addition, recent strong productivity and the decline in unit labor costs have raised hopes that prices will increase slower. The price of crude oil dropped below \$60 per barrel and the price of unleaded gasoline declined to around \$2.25 per gallon by late November 2005. In an earlier forecast the price of gasoline was assumed to be around \$2.50 a gallon at the end of 2005. The lower gasoline price is the result of emergency supplies of oil and refined products from abroad. Unfortunately, natural gas prices are expected to remain high because of reduced production caused by last year’s storms. According to the Minerals Management Service, as of November 10, 2005, 40.2% of daily natural gas production in the Gulf of Mexico was shut down. The cumulative hurricane-related production losses are nearly 12% of the Gulf of Mexico’s annual production. With the impact of the production losses in

the Gulf of Mexico and the stronger winter demand for natural gas, the price of natural gas at the end of 2005 should be about 90% above last year's price. Residential natural gas heating costs are expected to jump about 50% this heating season compared to last year's heating season. However, if the winter of 2005-2006 is colder than normal, natural gas prices will climb even higher. The good news is energy prices are near their peaks, and they should start declining. The bad news is they will retreat gradually. This can be seen in the forecast for the energy commodity component of the consumer price index. This energy price measure rose 17.8% in 2004 and an estimated 22.6% in 2005. Thereafter, it is forecast to decline 1.8% in 2006, 7.4% in 2007, 3.2% in 2008, and 0.9% in 2009. Despite the near-term pressure from rising energy prices, the overall consumer price index should grow modestly over the forecast period thanks to healthy productivity growth that keeps employment costs growing at around 4% annually. Overall consumer price inflation is expected to be 3.4% in 2005, 2.6% in 2006, 1.5% in 2007, 2.0% in 2008, and 2.2% in 2009. The core inflation rate (all items less food and energy) is projected to be 2.2% in 2005, 2.4% in 2006, 2.5% in 2007, 2.5% in 2008, and 2.6% in 2009.

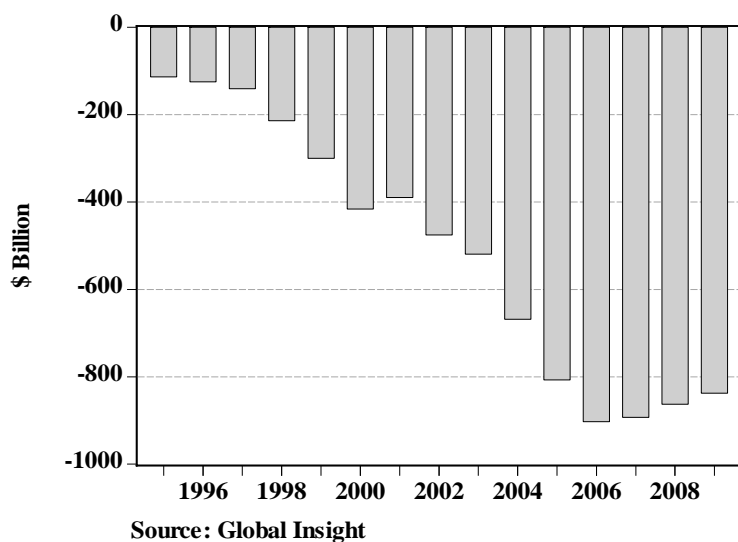
## Consumer Price Inflation



**International:** Global output growth should maintain an above-trend pace through the next few quarters. On an annual basis, real global GDP is expected to advance 3.3% in 2005 and average 3.2% annual growth during the 2007-2010 period. The United States and China should be the two main engines of global activity, as growth in U.S. domestic demand and Chinese production should remain strong. China will be the global economic growth champion. China's economy should increase 9.3% in 2005, 8.5% in 2006, and average 7.5% annual growth from 2007 to 2010. Other developed economies will grow slower than the global pace. Eurozone growth was sluggish during the first half of 2005, and

no marked improvement is foreseen. The region continues to be weighed down by significant economic and political handicaps. As such, real output in the Eurozone is expected to increase just 1.3% in 2005 and 1.6% in 2006, then average 2.0% growth through 2010. The outlook for Japan is brighter than for the Eurozone. The mild upward trend in Japanese consumption, combined with sustained gains in business spending has provided the economy with some much-needed stimulus. Closer to home, the Mexican and South American economies are anticipated to grow faster than the global economy after 2006. Under these conditions, the U.S. trade deficit will grow again in 2006, but will shrink beginning in 2007.

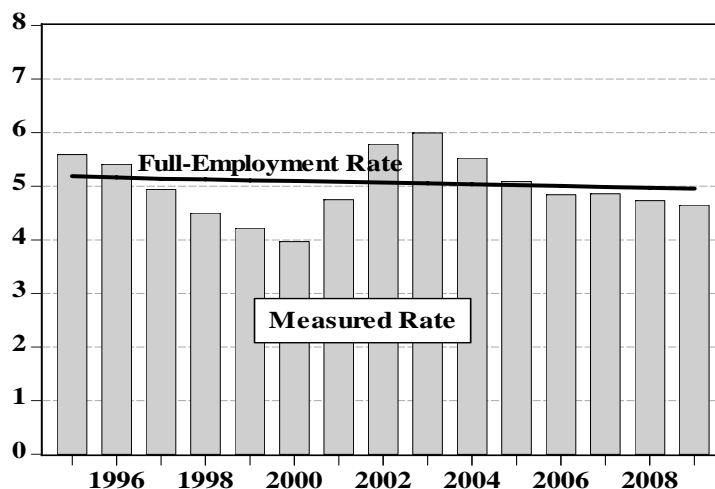
## U.S. Trade Deficit



**Employment:** After a two-month lull, U.S. nonfarm employment increased by a healthy 215,000 jobs in November 2005. This was well above the average monthly job gains of 196,000 for the January-August 2005 period. Battered by the hurricanes that ravaged the Gulf Coast, the U.S. economy eked out just 17,000 jobs in September 2005 and 44,000 jobs in October 2005. The nation's labor market is projected to achieve full employment early in the forecast period thanks to the economy's continuous job production. This a much-welcomed reversal of the situation early in the recovery when dismal job creation caused the unemployment rate to soar. Specifically, the economy experienced no

job gains in 2001 and actually suffered losses in both 2002 and 2003. Not surprisingly, the average unemployment rate jumped nearly one percentage point from 3.97% in 2000 to 4.75% in 2001. The unemployment rate continued to rise even after the 2001 recession had ended, hitting 5.99% in 2003. The job situation finally turned around in 2004, as employment grew 1.1%. This was followed by employment growth of 1.6% in 2005. As a result of 2005's healthy job growth the U.S. unemployment rate declined from 5.4% in December 2004 to 5.0% in October 2005. The unemployment rate is expected to decline to 4.84% in 2006, which is below the full-employment threshold. The labor force is anticipated to remain at full employment for the remaining years of the forecast, as the economy creates jobs at about a one-percent annual pace through 2009. While this is the most likely outcome for the employment, it is not the only one. In one alternative, productivity could soar, energy prices could fall, investment could swell, and foreign economies would be more robust. Under these conditions the unemployment rate would fall to less than 4% by late 2008. Another alternative is one where inflation is high and the Federal Reserve boosts interest rates despite rising unemployment. The resulting stagflation would cause the housing sector to decline steeper than had been forecast. In addition, payroll employment growth would stall in 2006 and 2007, and the unemployment rate would exceed its recent highs.

## U.S. Civilian Unemployment Rate

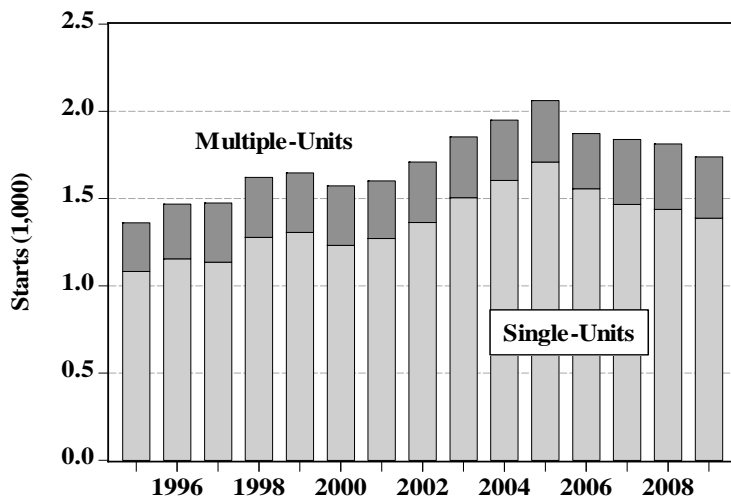


Source: Global Insight

**Housing:** The U.S. housing industry appears to be in transition. Clear signs of strength have been replaced by mixed signals, suggesting this industry may be losing steam. This is an important change because the housing sector has played a major role in propping up the U.S. economy. Industry data from September 2005 show how conflicting the signals have been. New single family home sales rebounded 2.1% last September, but the improvement paled in comparison to the 11.6% decline in the previous month. Average new home sales in August and September were 6% below the second-quarter estimate. More recently, two articles in the *Wall Street Journal* presented divergent pictures of the housing sector. On November 29, 2005 the paper reported the National Association of Realtors estimated sales of previously occupied homes slowed and the inventory of unsold homes grew in October 2005. However, the next day the *Wall Street Journal* published an article describing the U.S. Department of Commerce's findings that new home sales surged in October 2005. The following day the U.S. Department of Commerce reported U.S. construction spending for the first ten months of 2005 was nearly 9% higher than the previous year. Conflicting signals are common when a sector is in transition. Given the housing sector has been red-hot, it means this sector has probably passed its peak. But what a peak it has been. While 1973 set the all-time record for total housing starts, 2005's single-family starts will blow away all



## U.S. Housing Starts



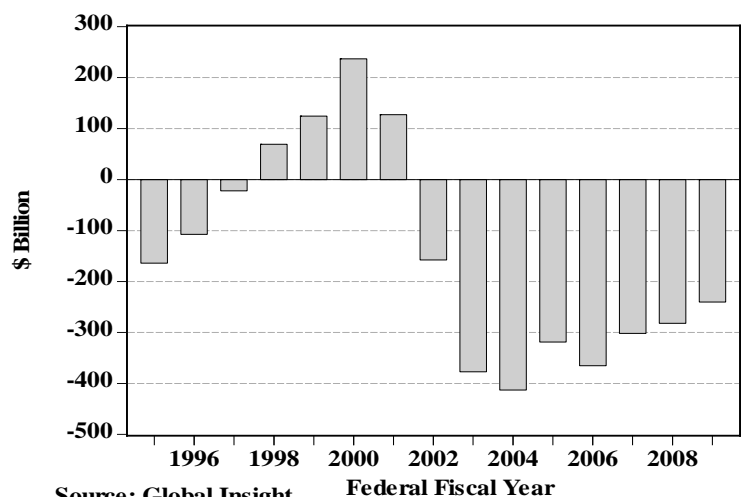
Source: Global Insight

prior records. Single-family starts should reach 1.7 million, which is 6.6% higher than the previous year. Rising mortgage interest rates will make an encore of last year's showing unlikely, however. United States single-family housing starts are projected to be 1.6 million in 2006, 1.5 million in 2007, 1.4 million in both 2008 and 2009. Total housing start are expected to fall from 2.1 million units in 2005, to 1.9 million units in 2006, to 1.8 million units in 2007 and 2008, and 1.7 million units in 2009. The third quarter of 2005 marked the 15<sup>th</sup> consecutive quarter that residential investment had been a positive contributor to the nation's GDP growth.

It is anticipated that it was also the last quarter it will boost growth for about a year and a half. Fortunately, though, the initial blow from the softening residential sector will be cushioned by the nonresidential construction, whose growth is expected to accelerate from 1.8% in 2005 to 13.6% in 2006.

**Government:** When President Bush presented his 2006 budget in January 2005, one of his goals was to reduce the U.S. federal budget deficit by half over five years. In order to meet the deficit targets and accommodate higher discretionary spending on defense, extensions of the 2001 and 2003 tax acts, and other savings and health insurance proposals, Congress was asked to cut \$138 billion in discretionary spending and \$68 billion in mandatory programs. While some questioned whether these ambitious deficit targets could be met, a flood of revenue made it clear the spending reductions necessary to meet the President's long-term deficit in 2010 was significantly lower than had been proposed in January 2005. Despite this windfall, little progress had been made on key spending and tax bills by the summer of 2005. The Congress lost the luxury of time in the fall of 2005. The budget and tax reform processes were turned upside down when the August-September hurricanes hit, energy prices spiked, and avian flu hit the radar screen. By mid-November the House had proposed about \$54 billion in total spending reductions and the Senate \$35 billion in spending cuts. With hurricane-related spending projected to bump emergency outlays nearly \$110 billion in the next four years, the proposed spending cuts fell short of what would have been required to keep the deficit under wraps and fund the extensions of the 2001 and 2003 tax reductions. On the Unified Budget basis, the federal budget deficit is projected to be \$319 billion in 2005, \$365 billion in 2006, \$302 billion in 2007, \$282 billion in 2008, and \$240 billion in 2009.

## U.S. Federal Government Surplus Unified Basis



Source: Global Insight

## **IDAHO FORECAST DESCRIPTION**

### **The Forecast Period is the Third Quarter of 2005 through the Fourth Quarter of 2009**

Idaho's robust economic growth at the beginning of last year and steady growth since then virtually guarantee 2005 was one of the best years in recent memory. Idaho nonfarm employment started the year by growing at a 6.6% annual rate—its strongest showing since the third quarter of 1993. Total employment also topped the 600,000-job threshold in the same quarter. Much of this strength reflected the red-hot construction sector that was creating jobs almost five times faster than during last year's first quarter. Fueling the jump in construction jobs was housing starts in the Gem State, which advanced at an incredible 62.7% annual pace. Boosted by the strong job gain, Idaho nominal personal income grew by a healthy 8.6% annual pace in the first quarter of 2005. It should also be noted that Idaho nominal personal income grew more than four times faster than national personal income. Adjusting for inflation shows Idaho personal income rose 6.2% in the first quarter of 2005. In comparison, U.S. real personal income was flat during the same quarter.

After enjoying an incredible first quarter, Idaho's economy settled into more sustainable growth during the second quarter of 2005. Idaho nonfarm employment increased at a 2.5% rate, as construction employment "slowed" from the previous quarter's 28.1% pace to 6.3% in the second quarter. Idaho housing starts actually declined in the second quarter, but still remained at a very high level. Idaho nominal personal income increased 6.7% in the second quarter while real personal income grew about half as fast. As was the case in the first quarter of 2005, all of these Idaho economic indicators except for construction employment increased faster than their national counterparts.

Idaho nonfarm employment is expected to advance just over 2% in both quarters of the second half of 2005. If this forecast holds, Idaho nonfarm employment will have grown 3.7% in 2005, which would be its best year since 2000. This is more than twice the 1.6% forecasted growth rate for national nonfarm employment. One of the reasons for the Gem State's job advantage is construction. Idaho construction employment is forecast to rise 11.4% in 2005, while national construction employment should grow 3.9%. Idaho nominal personal income should rise 7.2% and real personal income should increase 4.3%. National nominal personal income is anticipated to increase 5.7% and U.S. real personal income should grow 2.8%.

Idaho's economy should continue to grow, but not match the high-water mark it set in 2005. However, Idaho's economy will continue to grow faster than the national economy. Idaho nonfarm employment should average about 2% growth per year during the 2006-2009 period, raising employment to 661,700 jobs in the terminal year of the forecast. This is significantly faster than the expected U.S. nonfarm job growth of 1.3% per year. As in 2005, Idaho personal income, both nominal and real, should grow faster than at the national level. Specifically, Idaho nominal personal income is forecast to increase 6.4% annually. National nominal personal income should rise 6.1% per year. It is predicted Idaho real personal income will grow 4.1% annually and U.S. real personal income will advance 3.8%.

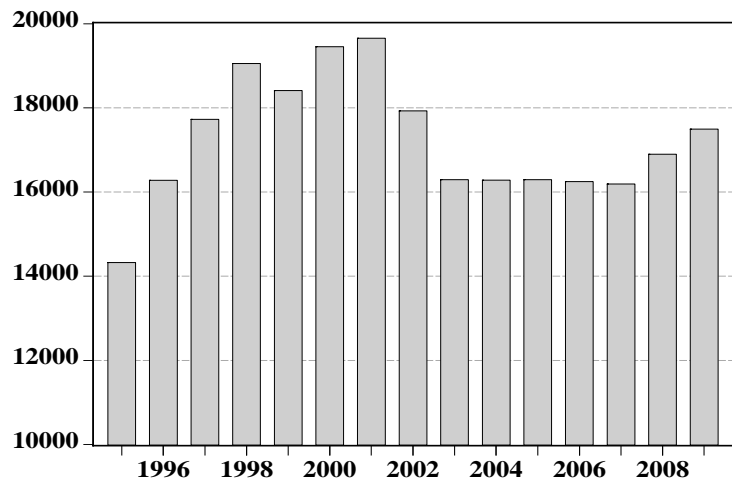
## SELECTED IDAHO ECONOMIC INDICATORS

### Computer and Electronics:

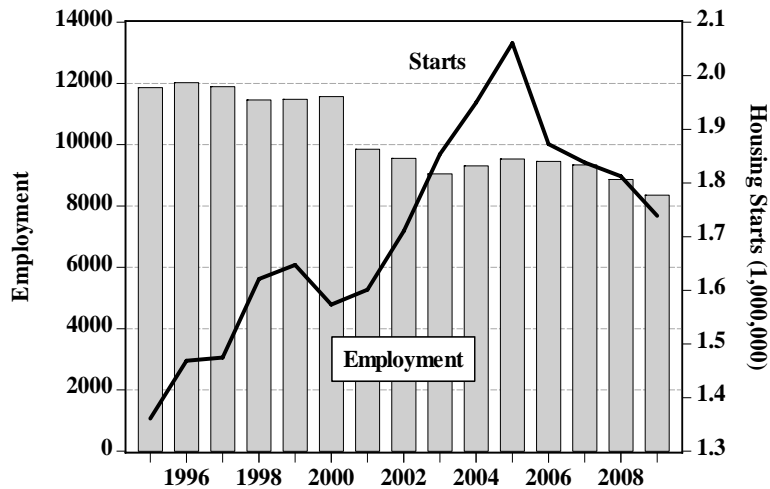
Employment in Idaho's largest manufacturing sector is forecast to remain flat through 2007. This outlook could be viewed as a bottle that is half empty or half full. A pessimist would point out the forecast is disappointing for the sector that was one of the state's most reliable economic growth engines in the 1990s. An optimist would note the outlook means an end to the huge job declines that plagued the computer and electronics sector in the first years of the current decade. A review of this sector's recent history shows why both opinions are valid. During the 1990s several factors combined to create near perfect

conditions for rapid growth. These factors included the growing sophistication of personal computer hardware and software that was a boon to local memory manufacturer Micron Technology. In addition, Micron's computer manufacturing subsidiary grew along with the popularity of personal computers. Hewlett-Packard's Boise plant prospered thanks to its phenomenally successful laser printer line. Zilog and AMI designed and produced application specific integrated circuits for a wide variety of products. Thanks to the success of these and other Idaho-based high-technology companies, Idaho computer and electronics employment advanced an average of 6.3% per year from 1991 to 2001. At this pace, this sector grew to become the state's largest manufacturing employer in 1997. Unfortunately, the high-tech industry entered a protracted downturn early this decade that grounded this high-flying sector. The casualty list from this turn of events included most of Idaho's biggest players. Jabil Circuit, a relatively new arrival on the Gem State's high-tech scene, halted a planned expansion and eventually closed its doors after customer orders evaporated. In 2001, MicronPC.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard reduced their staffs. At first, this sector had enough momentum to weather the slowdown, though its employment growth slowed from 5.7% in 2000 to 1.0% in 2001. Unfortunately, the next year was not as prosperous. The Gem State's computer and electronics sector suffered another round of layoffs in 2002; this time employment did not just slow, it plunged 8.8%. This decline was followed by a 9.1% drop in 2003, as Micron Technology reduced its Idaho workforce by about 1,000 in early 2003. The good news is Idaho computer and electronics employment stabilized in 2004. However, this sector is not expected to regain all the jobs lost during the recent high-tech slump. Specifically, Idaho computer and electronics manufacturing employment should advance 0.1% in 2005, retreat 0.3% in both 2006 and 2007, increase 4.3% in 2008, and rise 3.5% in 2009. This forecast does carry a couple of downside risks. Hewlett-Packard recently announced it plans to reduce its company workforce by about 15,000 over the next 18 months. However, the company has not released details of the impacts this move will have on the Boise site. Because of this lack of data, no impacts from the company's latest round of restructuring have been built into this forecast. Another challenge this sector faces is the potential glut of supply in the global semiconductor market. Not all risks are on the downside. Micron Technology is diversifying its product line in order to insulate itself from downturns in the DRAM market. To this end, the company announced it is investing in a new joint venture with Intel to produce NAND flash memory. This type of memory is used in digital cameras, cell phones, and MP3 players.

**Idaho Computer and Electronic Products  
Employment**



### Idaho Wood Product Employment and U.S. Housing Starts



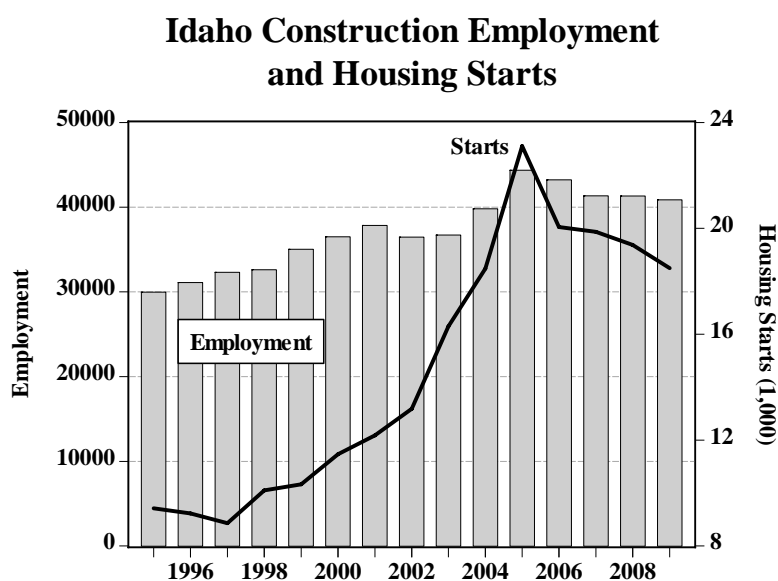
### Logging and Wood Products:

Employment in Idaho's logging and wood products sector is forecast to remain relatively stable over the next few years before falling, beginning in 2008. The start of this sector's recent round of stability actually began in 2004, when employment advanced significantly for the first time in seven years. Prior to 2004's job gain, this sector's employment had declined 25% from 1996 to 2003. This forecast is an improvement over the one made a year ago. Last January, this sector's employment was projected to begin a new round of declines in 2005, which would leave 8,300 jobs in 2008. In the current forecast, Idaho logging and

wood products employment actually increases in 2005. Much of the job improvement reflects the stronger than anticipated housing market. In January 2005, it was believed U.S. housing starts had peaked in 2004 and starts would be softer in 2005. However, this did not happen. National housing starts once again defied almost everyone's expectations by growing above 2 million units in 2005. Not only did this help support Idaho logging and wood products employment in 2005, but by raising the bar, it provides employment stability a ways down the road. Another reason for the more optimistic employment forecast is Idaho logging and wood products employment has remained strong through 2005. The most recent data from the Idaho Department of Commerce and Labor show logging and wood products employment advanced at an 8.6% annual rate in the first quarter of 2005 followed by 10.1% in the second quarter. As a result, mid-year employment was nearly 9,700, which is higher than the previous year's forecast of 9,300 jobs. This sector is also being helped by the weaker U.S. dollar, which is making U.S. wood products more competitive compared to Canadian products. Although this sector out performed the January 2005 forecast, future logging and wood products employment gains will be limited by local capacity constraints and ongoing efficiency measures. Idaho manufacturing capacity is limited because several mills have been closed in recent years and the surviving mills have been forced to produce more products with less labor in order to remain viable. It has been estimated each Idaho logging and wood products employee produced about 215,000 board feet of lumber in 2003, which is well above the 172,000 board feet of lumber per worker produced in 1993. While stronger demand has contributed to the improved outlook, supply issues have not gone away. A major concern is timber supply. The Gem State's logging and wood products sector has been traditionally dependent on timber from public lands, but this source has been shrinking over time. According to the U.S. Forest Service, just over half the timber harvested in Idaho came from public lands in 1993. By 2003, public timber accounted for less than 30% of the total harvest. A significant part of this decline is due to reduced harvests from national forests. The U.S. Forest Service estimates the harvest from Idaho national forests fell from 586.2 million board feet in 1993 to 123.2 million board feet in 2003, a decline of nearly 80%. Looked at another way, in 1993 timber from national forests accounted for more than a third of the total harvest, but just over 12% in 2003. Another concern is the current manufacturing overcapacity. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. This capacity is not currently a problem because of strong demand, but can lead to softer prices when demand ebbs.

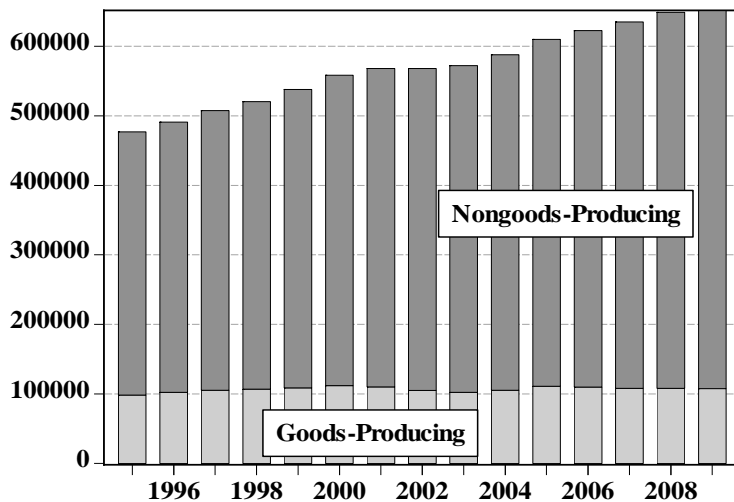
**Mining:** After declining for several years, the Gem State's mining sector's employment has been expanding recently. This sector's employment peaked at nearly 3,000 jobs in 1997. From that year until 2002, this sector's payroll shrank by over 40%, or about 1,200 jobs. The number of mining jobs grew slightly in 2003. It then rebounded noticeably over the next two years, taking mining employment above 2,000 jobs in 2005. It is forecast Idaho mining employment will expand slightly in 2006. If the forecast holds, mining will have grown in four consecutive years. The last time this happened was in the mid-1990s. Idaho mining employment is expected to peak at 2,200 in 2006. While this is about 400 higher than its nadir in 2002, it is well below its previous peak of 3,000 jobs in 1997. Unfortunately, this is a recurring theme for this sector. A timeline of Idaho mining employment displays a downward trend in which any given peak in employment is smaller than the preceding peak. While the mining industry has enjoyed employment gains recently, it will eventually succumb to tougher times. As a result, Idaho mining employment is anticipated to decline after this year.

**Construction:** Much of Idaho's recent economic strength is attributable to the state's healthy construction industry. This strength is evident in both the housing starts and construction employment data. These data measure the industry's robustness in terms of its height and duration. For example, Idaho total housing starts came within striking distance of 25,000 units in the third quarter of 2005—its strongest showing ever. But this is not the only housing record. According to historical records, the number of Idaho housing starts has been growing since 1998, which is the longest on record. During this expansion the number of Idaho housing starts grew from 8,900 in 1997 to 23,100 in 2005—a 160% increase, or about 13% per year. Idaho construction employment has also been on a tear, increasing in 14 of the last 15 years. Construction employment has grown from 20,300 in 1991 to 44,400 in 2005. This sector's growth is even more apparent when compared to total nonfarm employment. From 1991 to 2005, Idaho construction employment advanced by about 5.7% per year. In comparison, Idaho nonfarm employment grew 3.2% annually over this same period. Given the important role the construction sector has played in the state's economic expansion, it is natural to speculate what will happen after the construction boom. Trepidation about the future is valid given the outlook for rising mortgage interest rates and cooling local population growth. These factors suggest Idaho housing starts and construction employment are near their respective peaks. It remains to be seen how fast and how far housing starts and construction jobs will decline. We continue to believe any retreat from recent housing starts and construction employment peaks will be relatively orderly and gradual. First, interest rates and population growth are expected to change gradually, giving the construction industry ample time to adjust. Second, although the Idaho housing sector has been robust, there does not appear to be a serious excess inventory of properties in the state. Third, recent studies to identify communities vulnerable to "housing bubbles" show no Idaho communities are at significant risk (most "bubbles" are concentrated on the coasts). Fourth, Idaho could benefit from a boom in second homes. In light of these factors, Idaho's housing



sector is not expected to bust. Instead, both Idaho housing starts and construction employment should decline gradually from their respective record levels over the forecast period.

### Idaho Nonfarm Employment



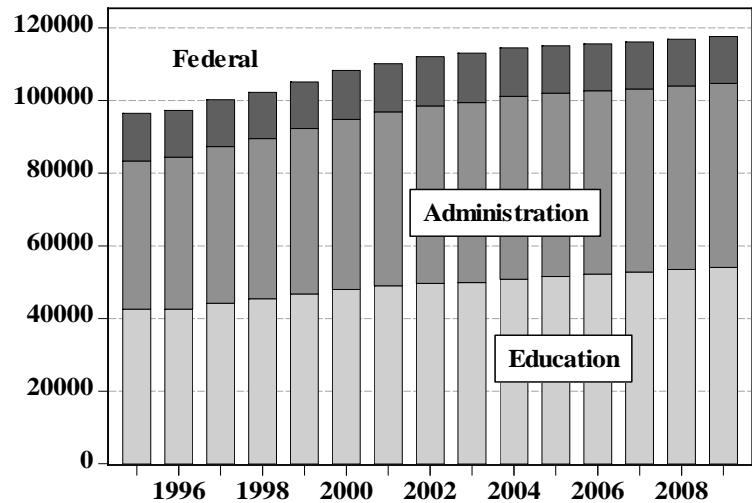
**Nongoods-Producing Industries:** The nongoods-producing sector has been and will continue to be an important part of Idaho's economy. For purposes of this section, the focus will be on the private, or nongovernmental, portion of nongoods-producing employment. Idaho government employment is covered in the following section. First, in 2005, the private portion of nongoods-producing employment accounted for over six of every ten nonfarm jobs. Second, Idaho nongoods-producing employment grew an average of 3.4% from 1991 to 2005, which was faster than total nonfarm employment's 3.2% annual average pace. Nongoods-

producing employment is split into two major categories: services and trade. The services category is the larger of the two, accounting for 73% of the jobs. Services have also been the fastest growing of the two categories from 1991 to 2005. Specifically, services employment advanced an average of 4.3% per year while trade employment grew 2.6% annually. The services category consists of information services; financial activities, transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. The strongest performing components have been professional & business services and education & health services. The former component added jobs at a 6.3% average annual pace from 1991 to 2005 and the latter component's employment grew an average of 5.6%. The leisure and hospitality, information services, and the other services sectors all grew over 3% per year from 1991 to 2005. Over this same period, transportation and utilities increased 2.5% per year. Financial services advanced an average of 2.4%. Retail trade employment expanded at a 2.8% annual pace from 1991 to 2005 and wholesale trade employment increased at a 2.1% annual rate. Over the forecast period, Idaho total private nongoods-producing employment is expected to average 3.3% growth per year. Services employment should expand at a 3.4% annual rate and trade employment should increase an average of 3.1% per year.

**Government:** Idaho government employment is anticipated to gradually advance over the forecast period, the result of the state's slowing population growth. The positive correlation between government employment and population can be seen in the recent performance of both these measures. Idaho's population expanded nearly 30% from 1990 to 2000. In comparison, the nation's population rose just 13.2% during the same decade. The Gem State's population explosion was fueled by the flood of newcomers into the state. In fact, Idaho net migration was higher than the natural population (births less deaths) increase in every year from 1991 to 2000. The main reason the Gem State proved to be so attractive to newcomers is because in the 1990s it was viewed as an economic oasis in an economic desert. The Gem State proved especially enticing to Californians whose state was suffering its worst downturn since the Great Depression. The burgeoning population stretched the state's existing infrastructure. In an attempt to meet the needs of the growing populace, Idaho's state and local employment payrolls expanded an average of 3.0% per year from 1991 to 2000. Migration into Idaho peaked in 1994, and it has receded since then. In 2001, Idaho's natural population growth was actually

above the migration increase, and the population grew about half as fast as in the previous decade. The slower population growth relieved some of the pressures from Idaho state and local governments, resulting in slower job growth beginning in the early years of the current decade. The state's population growth is expected to continue to slow over the next few years, and this will cause Idaho state and local government employment to grow just under 1% per year. The state's education sector will account for virtually all of the job gains over the forecast period, as local districts expand to meet the needs of growing enrollment. For example, the influx of students into the fast growing Meridian Joint School District finds many of its new schools above capacity when they first open their doors. In response, school district patrons passed a bond to fund the district's building needs. Idaho education-related employment should grow by about 2,500 jobs from 2005 to 2009. On the other hand, Idaho noneducation-related government employment will gain less than 200 jobs over the same period. One factor that could affect the state and local government job forecast is the property tax. Rapid escalation of property values in several parts of the state have once again led to concerns about higher property taxes. In response, the Idaho Legislature formed an interim committee that toured the state in order to get citizens' input on this issue. These meetings yielded several ideas for dealing with the property tax situation. It is anticipated the Legislature will use some of these ideas to form a plan to deal with property tax issues during its 2006 session. The adopted plan will influence local governments because these entities are funded by property taxes. Federal government employment should decline over the next few years. This decline reflects Congress' reaction to swelling federal budget deficits. The latest round of base realignments and closures that has been approved by President Bush will affect federal government employment in Idaho. It has been estimated 660 jobs will be lost, with Mountain Home Air Force Base taking the biggest hit. Unfortunately, the impact to the City of Mountain Home will be relatively high because Mountain Home Air Force Base is the city's largest employer.

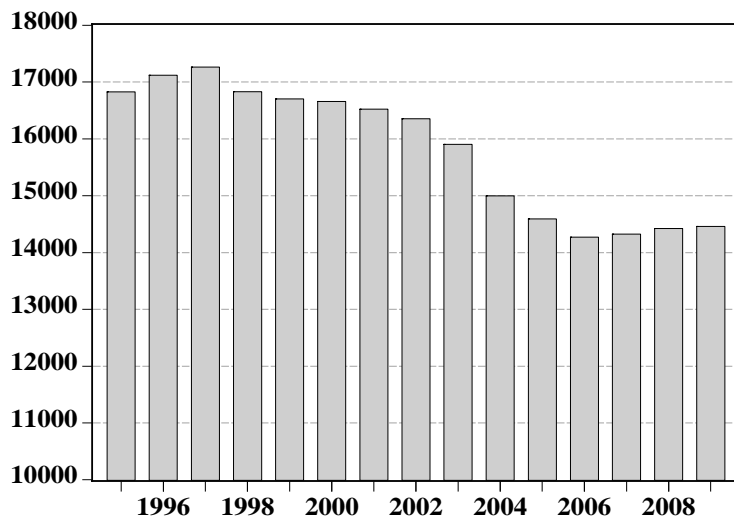
## Idaho Government Employment



For example, the influx of students into the fast growing Meridian Joint School District finds many of its new schools above capacity when they first open their doors. In response, school district patrons passed a bond to fund the district's building needs. Idaho education-related employment should grow by about 2,500 jobs from 2005 to 2009. On the other hand, Idaho noneducation-related government employment will gain less than 200 jobs over the same period. One factor that could affect the state and local government job forecast is the property tax. Rapid escalation of property values in several parts of the state have once again led to concerns about higher property taxes. In response, the Idaho Legislature formed an interim committee that toured the state in order to get citizens' input on this issue. These meetings yielded several ideas for dealing with the property tax situation. It is anticipated the Legislature will use some of these ideas to form a plan to deal with property tax issues during its 2006 session. The adopted plan will influence local governments because these entities are funded by property taxes. Federal government employment should decline over the next few years. This decline reflects Congress' reaction to swelling federal budget deficits. The latest round of base realignments and closures that has been approved by President Bush will affect federal government employment in Idaho. It has been estimated 660 jobs will be lost, with Mountain Home Air Force Base taking the biggest hit. Unfortunately, the impact to the City of Mountain Home will be relatively high because Mountain Home Air Force Base is the city's largest employer.

**Food Processing:** One of the strongest characteristics of the one of the state's cornerstone sectors, food processing, is its ability to adapt. This characteristic has helped it evolve in an ever-changing world. Some of the recent changes have been painful. For example, nearly 360 jobs were lost when unfavorable business conditions caused the J.R. Simplot Company to close its Nampa meat packing plant in the fall of 2003. In addition, the J.R. Simplot Company shuttered its Heyburn potato processing plant that was built in 1960 and since then had run continuously. More recently, the Swift and Company beef processing plant fell victim to the embargo of Canadian beef imports into the U.S. Concerns over mad cow disease restrict imports to animals under 30 months old. The Nampa plant processed older animals and was not able to get enough animals to keep operations viable. About four hundred jobs were lost when the company permanently closed the plant. Although some plants have closed, new plants are opening. For example, Gossner Foods, Inc. has opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. This fall Marathon Cheese announced it would build a \$27-million plant in Mountain Home. Company officials estimate the cheese-packing plant will initially employ 250 workers, but employment should climb to twice that many jobs in five years. This would

## Idaho Food Processing Employment



make the plant one of Elmore County's largest employers. The new Gossner and Marathon cheese plants are symbolic of the state's growing dairy industry. According to the USDA, the size of Idaho's dairy herd more than doubled from 208,000 cows in 1994 to 424,000 cows in 2004. Over this same period, milk production more than doubled from 3.8 billion gallons to 9.1 billion gallons. The amount of milk sold to plants also more than doubled during this time. Milk cash receipts grew from a little under one-half billion dollars in 1994 to \$1.4 billion in 2004. Due to this strong growth, Idaho has moved ahead of Minnesota and within striking distance

of Pennsylvania to become the nation's fifth largest milk producer. Cash receipts from dairy farms were higher than those of cattle and calves in three of the last five years on record. One of the reasons for the dairy industry's success is the efficiency of large operations. For example, more than 80% of the state's dairy cows reside in dairies with at least 500 cows. Although cattle and calves cash receipts came in second to dairy receipts, cattle and calves operations are huge contributors to the state's economy. In 2003 and 2004, cattle and calves cash receipts have been over \$1 billion, or about a quarter of all farm cash receipts. Idaho's cattle and calves operations received an early Christmas gift this December when the Japanese government announced it was lifting its embargo on American beef. Prior to the ban on U.S. beef, Japan was Idaho's largest agricultural market, representing nearly one-third of all Idaho agricultural exports. The ban caused the state's Japanese exports to drop to just 18% of Idaho's total for 2004.





## ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its November 2005 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 3.6% in 2005, 3.4% in 2006, 3.1% in 2007, 3.4% in 2008, and 3.1% in 2009;
- U.S. nonfarm employment grows 1.6% in 2005, 1.6% in 2006, 1.4% in 2007, 1.3% in 2008, and 1.0% in 2009;
- the annual U.S. civilian unemployment rate falls gradually from 5.1% in 2005 to 4.6% in 2009;
- consumer inflation is 3.4% in 2005, 2.6% in 2006, 1.5% in 2007, 2.0% in 2008, and 2.2% in 2009;
- the current account deficit is \$807 billion in 2005, \$902 billion in 2006, \$893 billion in 2007, \$863 billion in 2008, and \$838 billion in 2009; and
- the federal unified budget deficit is \$319 billion in 2005, then it recedes to \$240 billion in 2009.

### OPTIMISTIC SCENARIO

The *Optimistic Scenario* represents the upside to the baseline forecast. It has been assigned a 20% probability of occurrence. Six assumptions distinguish the *Optimistic Scenario* from the *Baseline Scenario*. First, total factor productivity grows faster in this scenario than in the baseline. The faster productivity growth eliminates economic headaches such as inflation, budget deficits, and sluggish growth. It is the main reason economic growth and employment gains are higher in the *Optimistic Scenario*, yet inflation is lower and the federal budget deficit is lower. Second, foreign economic growth is stronger, which shrinks the current account deficit faster than in the baseline case. Third, business investment is stronger. Fourth, the federal budget deficit is lower than in the baseline, the result of stronger receipts and lower outlays caused by the stronger performing economy in the *Optimistic Scenario*. Fifth, better job growth, lower interest rates, higher consumers confidence, and lower long-term mortgage interest rates combine to boost housing starts above its baseline counterpart.

These assumptions produce a rosier outlook for the U.S. economy. Real output advances nearly a percentage point faster in than in the baseline in both 2006 and 2007. Although output growth and labor markets are stronger, inflation is lower because of the stronger dollar and higher productivity gains. The lower inflation rate allows the Federal Reserve to keep the federal funds rate below the baseline level. Since productivity growth is faster than in the baseline, potential GDP is higher in the *Optimistic Scenario* compared to the *Baseline Forecast*. Job growth is also stronger. Nonfarm employment is 972,300 higher than in the baseline at the end of 2006 and 1.62 million higher at the end of 2007. Not surprisingly, the U.S. unemployment rate is lower in this scenario than in the *Baseline Scenario*.

Ironically, Idaho's economic growth is slower in this scenario than in the baseline. This occurs because higher productivity, which is one of the cornerstones of the national forecast, means output is produced with fewer hours. This key feature of the *Optimistic Scenario* translates into fewer jobs for the Gem State. Specifically, Idaho nonfarm employment is expected to advance an average of 1.9% to 656,600 jobs in 2009 in the *Optimistic Scenario*. This is slower than its baseline counterpart, which increases 2.1% annually to 661,700. Idaho's goods-producing sector is hit the hardest. In 2009, this sector's employment, which consists of manufacturing, mining, and construction, is about 4,300 lower (4%) than in the *Baseline Scenario*. Nongoods-producing employment is down just 0.1% in 2009 compared to its baseline

**IDAHO ECONOMIC FORECAST**  
**BASELINE AND ALTERNATIVE FORECASTS**  
**JANUARY 2006**

	BASELINE					OPTIMISTIC					PESSIMISTIC				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
<b>GDP (BILLIONS)</b>															
Current \$	12,486	13,248	13,920	14,704	15,517	12,491	13,345	14,096	14,902	15,708	12,482	13,197	13,772	14,621	15,614
% Ch	6.4%	6.1%	5.1%	5.6%	5.5%	6.4%	6.8%	5.6%	5.7%	5.4%	6.4%	5.7%	4.4%	6.2%	6.8%
2000 Chain-Weighted	11,140	11,522	11,876	12,278	12,658	11,144	11,628	12,090	12,558	12,979	11,136	11,447	11,601	11,908	12,250
% Ch	3.6%	3.4%	3.1%	3.4%	3.1%	3.6%	4.3%	4.0%	3.9%	3.4%	3.5%	2.8%	1.3%	2.6%	2.9%
<b>PERSONAL INCOME - CURR \$</b>															
Idaho (Millions)	40,084	42,918	45,566	48,336	51,307	40,071	42,576	44,934	47,390	49,964	40,078	43,264	46,743	50,210	54,273
% Ch	7.2%	7.1%	6.2%	6.1%	6.1%	7.2%	6.3%	5.5%	5.5%	5.4%	7.2%	8.0%	8.0%	7.4%	8.1%
U.S. (Billions)	10,269	10,938	11,583	12,269	12,990	10,270	10,976	11,673	12,377	13,083	10,267	10,938	11,581	12,292	13,131
% Ch	5.7%	6.5%	5.9%	5.9%	5.9%	5.7%	6.9%	6.4%	6.0%	5.7%	5.7%	6.5%	5.9%	6.1%	6.8%
<b>PERSONAL INCOME - 2000 \$</b>															
Idaho (Millions)	36,015	37,669	39,290	40,797	42,323	36,016	37,559	39,096	40,513	41,897	35,990	37,416	39,161	40,682	42,454
% Ch	4.3%	4.6%	4.3%	3.8%	3.7%	4.3%	4.3%	4.1%	3.6%	3.4%	4.2%	4.0%	4.7%	3.9%	4.4%
U.S. (Billions)	9,227	9,600	9,987	10,355	10,715	9,231	9,682	10,156	10,581	10,971	9,220	9,460	9,703	9,960	10,272
% Ch	2.8%	4.1%	4.0%	3.7%	3.5%	2.9%	4.9%	4.9%	4.2%	3.7%	2.8%	2.6%	2.6%	2.6%	3.1%
<b>TOTAL NONFARM EMPLOYMENT</b>															
Idaho	609,974	622,677	635,132	648,975	661,695	609,922	622,010	632,882	645,394	656,604	609,965	622,227	632,332	645,486	659,672
% Ch	3.7%	2.1%	2.0%	2.2%	2.0%	3.7%	2.0%	1.7%	2.0%	1.7%	3.7%	2.0%	1.6%	2.1%	2.2%
U.S. (Thousands)	133,616	135,693	137,599	139,332	140,715	133,623	136,342	139,002	141,167	142,593	133,607	135,362	136,009	136,787	138,313
% Ch	1.6%	1.6%	1.4%	1.3%	1.0%	1.6%	2.0%	2.0%	1.6%	1.0%	1.6%	1.3%	0.5%	0.6%	1.1%
<b>GOODS-PRODUCING SECTOR</b>															
Idaho	111,124	110,006	108,052	108,101	107,489	111,082	109,696	106,464	105,113	103,197	111,185	110,851	107,331	107,536	108,228
% Ch	5.4%	-1.0%	-1.8%	0.0%	-0.6%	5.4%	-1.2%	-2.9%	-1.3%	-1.8%	5.5%	-0.3%	-3.2%	0.2%	0.6%
U.S. (Thousands)	22,136	22,263	22,222	22,188	22,157	22,139	22,426	22,660	22,779	22,751	22,148	22,417	21,920	21,302	21,176
% Ch	1.2%	0.6%	-0.2%	-0.2%	-0.1%	1.2%	1.3%	1.0%	0.5%	-0.1%	1.2%	1.2%	-2.2%	-2.8%	-0.6%
<b>NONGOODS-PRODUCING SECTOR</b>															
Idaho	498,849	512,671	527,080	540,874	554,205	498,840	512,315	526,418	540,281	553,407	498,780	511,377	525,002	537,950	551,444
% Ch	3.4%	2.8%	2.8%	2.6%	2.5%	3.4%	2.7%	2.8%	2.6%	2.4%	3.4%	2.5%	2.7%	2.5%	2.5%
U.S. (Thousands)	111,480	113,430	115,376	117,144	118,558	111,484	113,916	116,341	118,388	119,842	111,458	112,945	114,089	115,485	117,137
% Ch	1.7%	1.7%	1.7%	1.5%	1.2%	1.7%	2.2%	2.1%	1.8%	1.2%	1.7%	1.3%	1.0%	1.2%	1.4%
<b>SELECTED INTEREST RATES</b>															
Federal Funds	3.2%	4.7%	4.8%	4.8%	5.0%	3.2%	4.2%	4.3%	4.3%	4.5%	3.2%	5.6%	7.1%	7.4%	6.4%
Bank Prime	6.2%	7.7%	7.8%	7.8%	8.0%	6.2%	7.2%	7.3%	7.3%	7.5%	6.2%	8.6%	10.1%	10.4%	9.4%
Existing Home Mortgage	5.9%	6.8%	6.9%	7.0%	7.3%	5.9%	6.4%	6.4%	6.5%	6.7%	5.9%	8.6%	9.3%	7.5%	7.6%
<b>INFLATION</b>															
GDP Price Deflator	2.8%	2.6%	1.9%	2.2%	2.4%	2.8%	2.4%	1.6%	1.8%	2.0%	2.7%	2.8%	3.0%	3.4%	3.8%
Personal Cons Deflator	2.8%	2.4%	1.8%	2.2%	2.3%	2.8%	2.4%	1.6%	1.8%	2.0%	2.9%	3.8%	3.2%	3.4%	3.6%
Consumer Price Index	3.4%	2.6%	1.5%	2.0%	2.2%	3.3%	2.0%	1.1%	1.6%	1.9%	3.4%	4.0%	2.5%	2.9%	3.5%

Forecast Begins the THIRD Quarter of 2005

counterpart. The lower employment outlook drags down Idaho personal income. In the *Optimistic Scenario*, Idaho nominal personal income growth averages 5.7% from 2005 to 2009 and Idaho real personal income growth averages 3.9% over this same period. In the *Baseline Scenario*, Idaho nominal and real personal incomes average 6.4% and 4.1%, respectively.

## PESSIMISTIC SCENARIO

The downside risks to the baseline scenario are explored in the *Pessimistic Scenario*. Also known as the *Stagflation Scenario*, this alternative forecast has been assigned 25% probability of occurrence. This alternative assumes there is less spare capacity in the U.S. and the rest of the world. Without this cushion, prices rise faster than in the baseline case. Inflation is also fueled by the assumption of a weaker dollar, which pushes up import prices. The dollar loses nearly a fifth of its value versus the currencies of its major trading partners over the course of the forecast, which is much steeper than the dollar's decline in the baseline case. The weaker dollar also causes foreign investors to invest in other currencies, which lowers the flow of foreign funds into the U.S., putting upward pressure on domestic interest rates. The pessimistic simulation also includes a housing price bubble that ends inauspiciously. The housing bubble bursts next year, and by 2007, the average price tumbles more than 20% below its year-earlier value, and then stays below its baseline value through the forecast period.

Consumer confidence suffers at the hands of higher interest rates and persistently high energy prices. Consumers rein in discretionary spending and the U.S. economy slows. Core inflation stabilizes, but fails to retreat sufficiently for the Federal Reserve. In response, the nation's central bank declares war on rising prices. The Federal Reserve raises its federal funds rate steadily to a peak of 7.75% in the first quarter of 2008, which is 300 basis points higher than in the baseline. This bellwether rate falls gradually to 6.25% by the end of the forecast horizon, but this is still much higher than the baseline's 5.00%. With the weak dollar boosting trade, GDP growth begins to accelerate, bringing the unemployment rate down. As investment picks up, potential output rises relative to actual output, easing upward pressures on prices. Despite the multitude of challenges, the economy does not sink into a recession in this alternative. Instead, it fails to come as close to its potential as in the baseline.

Given the lower trajectory of the national economy presented in this scenario, it is no surprise Idaho nonfarm employment underperforms its baseline counterpart. As the accompanying table shows, Idaho nonfarm job growth is weaker than in the baseline in every year of the forecast, so that by 2009 employment is about 2,000 lower than the baseline's 661,700 jobs. What is interesting is Idaho personal income is slightly stronger than in the baseline case. For example, Idaho nominal personal income is \$54.3 billion in 2009 in this scenario compared to \$51.3 billion in the baseline. While most of the difference is explained by the higher inflation in the *Optimistic Scenario*, it does not explain all of the difference. This can be seen in the Idaho real personal income forecast for 2009. Even after adjusting for this scenario's higher inflation, Idaho real personal income is slightly higher in 2009 in this scenario compared to the *Baseline Scenario*.

# *Idaho General Fund Revenue*

## History and Projections

The following pages provide descriptions of the sources of General Fund revenue, historical rate and distribution formula information, historical revenue collection and distribution information, and a brief explanation of the basis of the forecast for each source of revenue that contributes to the General Fund.

Three primary revenue categories (individual income tax, corporate income tax, and sales tax) presently account for about 94% of General Fund revenue as of fiscal year 2005. These sources of revenue are forecast using a combination of econometric methods and judgment. The econometric method is multiple regression, using variables contained in the Idaho Economic Model (IEM). Exogenous forecast data are obtained from the January 2006 *Idaho Economic Forecast*. Both are products of the Division of Financial Management. The judgmental factors considered include the effects of rate changes, other law changes, judicial decisions, and knowledge not reflected in the econometric analysis.

Product taxes and miscellaneous revenue sources are forecast using collections history, trend analysis, law changes, receipts to date, and a broad array of contacts with individuals responsible for or otherwise involved with the collection of each revenue category. The largest miscellaneous revenue category, Insurance Premium Tax, is forecast in cooperation with the staff of the Department of Insurance, using simulation models to account for relevant variables and parameters that affect the cash flow into the General Fund.

**GENERAL FUND REVENUE**  
( \$ MILLION )

SOURCE	ACTUAL								
	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
<b>INDIVIDUAL INCOME TAX</b>	<b>\$432.22</b>	<b>\$459.44</b>	<b>\$508.02</b>	<b>\$559.17</b>	<b>\$596.46</b>	<b>\$650.85</b>	<b>\$704.82</b>	<b>\$776.19</b>	<b>\$841.87</b>
% CHANGE	8.5%	6.3%	10.6%	10.1%	6.7%	9.1%	8.3%	10.1%	8.5%
<b>CORPORATE INCOME TAX</b>	<b>\$60.02</b>	<b>\$57.97</b>	<b>\$70.00</b>	<b>\$87.63</b>	<b>\$131.64</b>	<b>\$151.98</b>	<b>\$122.36</b>	<b>\$117.29</b>	<b>\$95.44</b>
% CHANGE	-17.2%	-3.4%	20.8%	25.2%	50.2%	15.5%	-19.5%	-4.1%	-18.6%
<b>SALES TAX</b>	<b>\$335.74</b>	<b>\$364.32</b>	<b>\$402.82</b>	<b>\$452.68</b>	<b>\$481.57</b>	<b>\$463.00</b>	<b>\$476.73</b>	<b>\$496.81</b>	<b>\$588.80</b>
% CHANGE	5.2%	8.5%	10.6%	12.4%	6.4%	-3.9%	3.0%	4.2%	18.5%
CIGARETTE TAX	\$6.86	\$7.07	\$7.00	\$7.61	\$7.25	\$7.48	\$7.49	\$7.48	\$7.23
TOBACCO PRODUCTS	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
BEER TAX	\$1.60	\$1.66	\$1.70	\$1.71	\$1.65	\$1.62	\$1.63	\$1.62	\$1.68
WINE TAX	\$0.75	\$0.75	\$0.75	\$0.81	\$1.14	\$1.52	\$1.66	\$1.80	\$1.90
LIQUOR SURCHARGE	\$4.95	\$4.95	\$4.95	\$4.95	\$4.95	\$4.95	\$4.95	\$4.95	\$4.95
<b>PRODUCT TAXES</b>	<b>\$14.16</b>	<b>\$14.43</b>	<b>\$14.39</b>	<b>\$15.07</b>	<b>\$14.99</b>	<b>\$15.57</b>	<b>\$15.73</b>	<b>\$15.84</b>	<b>\$15.76</b>
% CHANGE	7.7%	1.9%	-0.2%	4.7%	-0.6%	3.9%	1.0%	0.7%	-0.5%
KILOWATT-HOUR TAX	\$1.78	\$1.61	\$1.45	\$2.09	\$1.69	\$2.89	\$2.97	\$3.24	\$2.89
MINE LICENSE TAX	\$0.47	\$0.59	\$0.11	\$0.47	\$0.29	\$0.80	\$0.66	\$0.96	\$1.98
INTEREST EARNINGS	\$19.39	\$11.81	\$10.54	\$10.61	\$15.00	\$18.54	\$18.24	\$17.93	\$18.69
COURT FEES AND FINES	\$3.33	\$3.39	\$3.21	\$3.72	\$3.89	\$4.24	\$4.71	\$5.02	\$5.13
INSURANCE PREMIUM TAX	\$28.64	\$31.94	\$28.81	\$33.19	\$34.93	\$36.13	\$40.26	\$42.85	\$45.47
ALCOHOLIC BEVERAGE LICENSES	\$0.99	\$1.01	\$0.96	\$1.04	\$1.07	\$1.05	\$1.14	\$1.15	\$1.16
UCC FILINGS	\$1.17	\$1.40	\$0.91	\$0.78	\$0.85	\$0.94	\$0.03	\$0.03	\$0.01
UNCLAIMED PROPERTY	\$1.15	\$1.35	\$1.34	\$1.71	\$2.09	\$1.39	\$0.83	\$1.17	\$1.59
LANDS	\$0.19	\$0.21	\$0.23	\$0.22	\$0.24	\$0.24	\$0.24	\$0.27	\$0.32
ONE-TIME TRANSFERS	\$0.33	\$0.51	\$0.00	\$3.42	\$0.00	\$0.15	\$0.00	\$0.00	\$0.43
ESTATE TAX	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
OTHER DEPTS & TRANSFERS	\$1.92	\$1.86	\$0.68	\$1.26	\$3.39	\$3.18	\$3.14	\$3.40	\$4.91
<b>MISC. REVENUE</b>	<b>\$59.36</b>	<b>\$55.68</b>	<b>\$48.23</b>	<b>\$58.52</b>	<b>\$63.46</b>	<b>\$69.55</b>	<b>\$72.23</b>	<b>\$76.01</b>	<b>\$82.57</b>
% CHANGE	10.2%	-6.2%	-13.4%	21.3%	8.4%	9.6%	3.9%	5.2%	8.6%
<b>TOTAL GENERAL FUND*</b>	<b>\$901.50</b>	<b>\$951.84</b>	<b>\$1,043.47</b>	<b>\$1,173.07</b>	<b>\$1,288.10</b>	<b>\$1,350.94</b>	<b>\$1,391.86</b>	<b>\$1,482.14</b>	<b>\$1,624.43</b>
% CHANGE	5.2%	5.6%	9.6%	12.4%	9.8%	4.9%	3.0%	6.5%	9.6%

\* Totals may not add due to rounding.

**GENERAL FUND REVENUE**  
(\$MILLION)

SOURCE	ACTUAL						FORECAST	
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
<b>INDIVIDUAL INCOME TAX</b>	<b>\$960.16</b>	<b>\$1,023.97</b>	<b>\$835.85</b>	<b>\$837.80</b>	<b>\$902.13</b>	<b>\$1,035.54</b>	<b>\$1,096.71</b>	<b>\$1,164.28</b>
% CHANGE	14.1%	6.6%	-18.4%	0.2%	7.7%	14.8%	5.9%	6.2%
<b>CORPORATE INCOME TAX</b>	<b>\$124.87</b>	<b>\$141.53</b>	<b>\$76.30</b>	<b>\$93.13</b>	<b>\$103.02</b>	<b>\$139.56</b>	<b>\$164.39</b>	<b>\$173.48</b>
% CHANGE	30.8%	13.3%	-46.1%	22.1%	10.6%	35.5%	17.8%	5.5%
<b>SALES TAX</b>	<b>\$627.50</b>	<b>\$647.29</b>	<b>\$657.12</b>	<b>\$700.24</b>	<b>\$886.08</b>	<b>\$950.83</b>	<b>\$836.35</b>	<b>\$850.09</b>
% CHANGE	6.6%	3.2%	1.5%	6.6%	26.5%	7.3%	-12.0%	1.6%
CIGARETTE TAX	\$7.30	\$7.98	\$8.00	\$8.26	\$30.04	\$7.81	\$8.10	\$0.00
TOBACCO PRODUCTS	\$0.00	\$4.06	\$4.31	\$4.67	\$5.49	\$5.75	\$5.80	\$6.00
BEER TAX	\$1.75	\$1.82	\$1.88	\$1.91	\$1.96	\$1.95	\$2.00	\$2.10
WINE TAX	\$1.96	\$1.90	\$1.88	\$1.97	\$2.14	\$2.33	\$2.40	\$2.45
LIQUOR SURCHARGE	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>
<b>PRODUCT TAXES</b>	<b>\$15.96</b>	<b>\$20.70</b>	<b>\$21.02</b>	<b>\$21.75</b>	<b>\$44.57</b>	<b>\$22.79</b>	<b>\$23.25</b>	<b>\$15.50</b>
% CHANGE	1.2%	29.7%	1.5%	3.5%	104.9%	-48.9%	2.0%	-33.3%
KILOWATT-HOUR TAX	\$2.77	\$1.80	\$1.79	\$1.80	\$1.83	\$1.53	\$1.90	\$1.90
MINE LICENSE TAX	(\$0.66)	\$0.12	\$0.82	\$0.04	\$0.07	\$0.03	\$0.25	\$0.10
INTEREST EARNINGS	\$21.56	\$22.30	\$11.33	\$2.98	\$4.97	\$8.92	\$11.30	\$7.60
COURT FEES AND FINES	\$5.31	\$5.49	\$5.19	\$5.29	\$4.98	\$4.66	\$4.60	\$4.67
INSURANCE PREMIUM TAX	\$46.43	\$55.88	\$55.37	\$59.49	\$62.77	\$60.85	\$59.14	\$59.08
ALCOHOLIC BEVERAGE LICENSES	\$1.30	\$1.22	\$1.36	\$1.39	\$1.61	\$1.64	\$1.56	\$1.59
UCC FILINGS	\$0.02	\$2.01	\$2.03	\$2.14	\$2.39	\$2.69	\$2.95	\$3.00
UNCLAIMED PROPERTY	\$2.31	\$5.81	\$0.88	\$3.76	\$3.69	\$9.83	\$4.00	\$3.50
LANDS	\$0.70	\$0.34	\$0.35	\$0.36	\$0.33	\$0.53	\$0.25	\$0.43
ONE-TIME TRANSFERS	\$0.57	\$8.08	\$15.42	\$14.46	\$71.91	\$2.03	\$0.76	\$0.00
ESTATE TAX	\$0.00	\$35.81	\$7.59	\$13.65	\$4.43	\$3.30	\$1.00	\$0.50
OTHER DEPTS & TRANSFERS	<u>\$12.15</u>	<u>\$12.29</u>	<u>\$8.01</u>	<u>\$5.67</u>	<u>\$2.33</u>	<u>\$22.96</u>	<u>\$20.66</u>	<u>\$21.89</u>
<b>MISC. REVENUE</b>	<b>\$92.46</b>	<b>\$151.15</b>	<b>\$110.14</b>	<b>\$111.02</b>	<b>\$161.31</b>	<b>\$118.98</b>	<b>\$108.37</b>	<b>\$104.25</b>
% CHANGE	12.0%	63.5%	-27.1%	0.8%	45.3%	-26.2%	-8.9%	-3.8%
<b>TOTAL GENERAL FUND*</b>	<b>\$1,820.96</b>	<b>\$1,984.64</b>	<b>\$1,700.43</b>	<b>\$1,763.95</b>	<b>\$2,097.10</b>	<b>\$2,267.69</b>	<b>\$2,229.06</b>	<b>\$2,307.60</b>
% CHANGE	12.1%	9.0%	-14.3%	3.7%	18.9%	8.1%	-1.7%	3.5%

\* Totals may not add due to rounding.





# INDIVIDUAL INCOME TAX

**Description:** (Title 63, Chapter 30, *Idaho Code*)

Collections from the individual income tax are based on a graduated scale of tax rates that are applied to brackets of Idaho taxable income. Current and past individual income tax rates and brackets are detailed in the following table.

## INDIVIDUAL INCOME TAX RATE HISTORY

TAX YEARS	Tax Rates on the Portion of Taxable Income <sup>(1)</sup>								
	\$0-1000	\$1001-\$2000	\$2001-\$3000	\$3001-4000	\$4001-5000	\$5001-6000	\$6001-7500	\$7501-20000	\$20000+
1931	1.0%	1.0%	2.0%	2.0%	3.0%	3.0%	4.0%	4.0%	4.0%
1933	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.0%	6.0%	6.0%
1935	1.5%	3.0%	4.0%	5.0%	6.0%	8.0%	8.0%	8.0%	8.0%
1955 <sup>2</sup>	1.61%	3.23%	4.30%	5.38%	6.45%	8.60%	8.60%	8.60%	8.60%
1957 <sup>3</sup>	2.0%	4.0%	5.5%	6.6%	7.7%	8.8%	8.8%	8.8%	8.8%
1959	3.5%	5.0%	6.5%	7.5%	8.5%	9.5%	9.5%	9.5%	9.5%
1963	3.4%	5.5%	7.2%	8.25%	9.35%	10.5%	10.5%	10.5%	10.5%
1965	2.5%	5.0%	6.0%	7.0%	8.0%	9.0%	9.0%	9.0%	9.0%
1972	2.0%	4.0%	4.5%	5.5%	6.5%	7.5%	7.5%	7.5%	7.5%
1987	2.0%	4.0%	4.5%	5.5%	6.5%	7.5%	7.5%	7.8%	8.2%
2000	\$0-1022	\$1023-2044	\$2045-3066	\$3067-4088	\$4089-5110	\$5111-7666	\$7667-20,442		\$20443+
	1.9%	3.9%	4.4%	5.4%	6.4%	7.4%	7.7%		8.1%
2001	\$0-1056	\$1057-2113	\$2114-3169	\$3170-4226	\$4227-5282	\$5283-7923	\$7924-21129		\$21130+
	1.6%	3.6%	4.1%	5.1%	6.1%	7.1%	7.4%		7.8%
2002	\$0-1087	\$1088-2173	\$2174-3260	\$3261-4346	\$4347-5433	\$5434-8149	\$8150-21730		\$21731+
2003	\$0-1104	\$1105-2207	\$2208-3311	\$3312-4415	\$4416-5518	\$5519-8278	\$8279-22074		\$22075+
2004	\$0-1129	\$1130-2258	\$2259-3387	\$3388-4515	\$4516-5644	\$5645-8466	\$8467-22577		\$22577+
2005	\$0-1158	\$1159-2317	\$2318-3476	\$3477-4635	\$4636-5793	\$5794-8691	\$8692-23177		\$23178+

1. Amounts shown are for single and married filing separate returns.

For all other filing status returns double the income bracket amounts at the top of the columns.

2. Rates shown include 7.5% surcharge on all brackets. Effective in 1955 and 1956.

3. Rates shown include 10% surcharge on brackets greater than \$2000. Effective in 1957 and 1958.

Idaho taxable income is derived from federal adjusted gross income (AGI). For Idaho residents, income from all states is taxable in Idaho, with credit provided for taxes paid to other states. For non-residents, only income earned in Idaho is subjected to Idaho income tax. For part-year residents, income from all states is taxable during the period of Idaho residency, while only income earned in Idaho is subjected to Idaho income tax during the period of non-residency.

Although Idaho conforms to most of the federal income tax provisions for determining taxable income, a number of differences exist. Idaho's definition of taxable income excludes 100% of social security income, 60% of certain capital gains, and 100% of interest earned on U.S. government securities. For a complete delineation of Idaho's income tax structure, refer to the tax structure section of this publication.

Idaho also provides a number of credits that are not included in the federal tax code. These include an investment tax credit, credit for contributions to educational entities, and several credits linked to investments in broadband equipment, research activities, and job creation. Again, for a complete delineation of Idaho's income tax structure, refer to the tax structure section of this publication.

Idaho income derived from wages and salaries is subject to payroll withholding. Idaho does not require estimated payments for individual income tax, so tax payments derived from business income and most investment income are paid when the tax return is due (typically April 15<sup>th</sup> following the end of the tax year). A number of Idaho taxpayers make voluntary estimated payments at the end of the tax year (typically December 31<sup>st</sup>) in order to claim the payment on the same year's federal income tax return.

Since the enactment of Idaho's income tax in 1931, all net tax liability, interest, and penalties have been distributed to the General Fund. Beginning in FY 2001, withholding collections on Idaho lottery winnings are distributed to public schools and counties. An amount equal to 20% of the individual income taxes collected by the State Tax Commission and deposited with the State Treasurer is required by statute to be deposited in the State Income Tax Refund Fund. Any balance exceeding \$1,500,000 in the State Income Tax Refund Fund at the end of the year is transferred to the General Fund on June 30.

A separate filing tax of \$10 per income tax return has been assessed since 1959. Proceeds of the filing tax went to the General Fund until 1961 when their distribution was changed to the Permanent Building Fund. The income tax return form includes a variety of other "check offs" that can be used by the taxpayer to donate various amounts (usually from refunds) to special funds such as non-game wildlife, drug enforcement, etc.

### **Basis of Projection:**

The projections of General Fund revenue from the individual income tax for FY 2006 and FY 2007 are based on a combination of econometric analysis and judgment.

The econometric analysis begins with the Idaho Economic Model (IEM), an economic base model of Idaho's economy that is used to derive employment by industry and by income type. Idaho income data is then used to correlate historical net withholding collections (gross withholding collections less refunds) to Idaho wage and salary payments. Filing collections are estimated using proprietors' income as the primary explanatory variable.

The econometric-based forecast of net withholding collections and filing collections are then adjusted to reflect: a) new features of the tax law that are expected to impact future collections and accruals, and b) effects of other factors that are expected to have impacts not reflected in the econometric analysis.

The forecast that follows assumes no further change in current Idaho income tax law, a standard practice of the Division's revenue forecasts.

## Historical Data:

### INDIVIDUAL INCOME TAX

(\$ THOUSANDS)

Year		Gross Collections	Distributions			
			Refunds	Gen. Fund	Perm. Building Fund	Misc. & "Check-Off" Donations
FY70	Actual	\$45,142.5	\$6,603.4	\$35,858.7	\$1,120.0	\$1,560.3
FY71	Actual	51,186.3	7,512.8	40,738.9	1,104.3	1,830.3
FY72	Actual	64,107.9	9,460.1	51,235.1	1,040.2	2,372.5
FY73	Actual	76,510.6	13,658.2	59,164.7	977.7	2,710.0
FY74	Actual	95,373.9	16,058.6	75,103.7	973.4	3,238.3
FY75	Actual	117,911.0	23,372.8	89,566.6	1,046.8	3,924.8
FY76	Actual	131,064.3	26,024.7	99,386.0	940.7	4,711.9
FY77	Actual	150,650.7	29,844.0	116,587.3	920.6	3,298.8
FY78	Actual	169,195.1	24,210.7	143,660.6	39.6	1,284.1
FY79	Actual	198,231.0	31,245.2	163,203.8	907.8	2,874.0
FY80	Actual	212,761.8	35,322.8	172,620.9	1,081.4	3,736.7
FY81	Actual	242,743.6	41,262.4	196,892.1	1,093.2	3,495.8
FY82	Actual	264,162.3	44,012.5	215,835.5	1,082.1	3,232.1
FY83	Actual	272,845.0	55,669.9	212,356.6	1,064.1	3,755.4
FY84	Actual	287,957.0	54,731.7	230,002.0	3,008.0	215.3
FY85	Actual	314,955.9	62,164.8	249,277.9	3,322.7	190.5
FY86	Actual	324,704.5	63,132.6	258,065.2	3,275.8	230.9
FY87	Actual	331,393.7	63,191.4	264,128.9	3,842.1	231.3
FY88	Actual	340,376.7	50,486.1	287,156.0	2,581.4	153.2
FY89	Actual	394,403.4	47,582.5	343,077.5	3,551.4	192.0
FY90	Actual	459,019.4	56,873.5	398,284.0	3,668.1	193.8
FY91	Actual	508,711.2	72,282.6	432,218.3	3,984.1	226.2
FY92	Actual	543,233.5	80,435.4	459,438.2	3,157.0	202.9
FY93	Actual	609,443.1	96,209.4	508,023.1	4,998.9	211.7
FY94	Actual	671,419.7	107,859.3	559,166.6	4,215.4	178.4
FY95	Actual	724,809.1	123,717.5	596,457.5	4,459.0	175.2
FY96	Actual	770,804.9	115,072.5	650,850.0	4,708.5	173.9
FY97	Actual	830,855.9	121,650.3	704,819.9	4,236.1	149.7
FY98	Actual	914,961.2	133,761.8 <sup>1</sup>	776,192.0	4,817.3	190.1
FY99	Actual	989,401.5	142,174.4	841,865.0	5,107.5	254.6
FY00	Actual	1,113,448.3	147,853.6	960,163.7	5,041.1	389.9
FY01	Actual	1,200,254.7	169,727.3	1,023,970.2	6,073.1	484.1
FY02	Actual	1,033,900.3	191,524.7	835,854.8	5,636.6	884.2
FY03	Actual	1,033,471.1	189,691.0	837,798.6	5,358.3	623.2
FY04	Actual	1,097,096.6	189,116.2	902,125.5	5,346.8	508.0
FY05	Actual	1,241,292.8	190,269.1	1,035,542.5	5,160.5	10,320.8
FY06	Projection	1,303,528.7	200,620.9	1,096,707.9	5,400.0	800.0
FY07	Projection	1,389,521.3	218,744.3	1,164,276.9	5,600.0	900.0

# CORPORATE INCOME TAX

**Description:** (Title 63, Chapter 30, *Idaho Code*)

Collections from the corporate income tax are currently based on a flat rate of 7.6% applied to taxable income. For a listing of earlier rates refer to the following table. Beginning with tax year 1987, Idaho conformed to the changes made by the Tax Reform Act of 1986, except for the federal investment tax credit repeal. Idaho continues to allow a 3% credit that is tied to the federal definition of eligible property. For tax year 2001, an additional “incentive” investment tax credit was allowed in low income/high unemployment counties. Extra credits are also allowed for investments in broadband equipment, research activities, and job creation. See the tax structure section of this publication for details. Also, since September 1987, Idaho has required that corporations file quarterly payments of estimated taxes. This provision is based upon federal rules and was phased in over a two-year period.

## CORPORATE INCOME TAX RATE HISTORY

Tax Rates on the Portion of Income:								
Greater Than		\$0	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000
But Not More Than		\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	
Tax	1931	1.0%	1.0%	2.0%	2.0%	3.0%	3.0%	4.0%
Years	1933	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.0%
	1935	1.5%	3.0%	4.0%	5.0%	6.0%	6.0%	8.0%
	1954	1.28%	2.55%	3.40%	4.25%	5.10%	5.10%	6.80%
	1955	7.5%	Beginning of Single "Flat" Tax Rate on all Positive Net Taxable Income					
	1957	8.0% + 10% Surcharge in 1957 and 1958.						
	1959	9.5%						
	1963	10.5%						
	1965	6.0%						
	1972	6.5%						
	1981	6.5% + 0.2% franchise tax up to \$250,000.						
	1983	7.7%						
	1987	8.0%						
	2001	7.6%						

Since its enactment in 1931, all net tax liability, interest, and penalties associated with the corporate income tax have been distributed to the General Fund. An amount equal to 20% of the corporate income taxes collected by the State Tax Commission and deposited with the State Treasurer is required by statute to be deposited in the State Income Tax Refund Fund. Any balance exceeding \$1,500,000 in the State Income Tax Refund Fund at the end of the year is transferred to the General Fund on June 30. An additional filing tax of \$10 per tax return has been assessed since 1959. Proceeds of the filing tax went to the General Fund until 1961, when their distribution was changed to the Permanent Building Fund.

## Basis of Projection:

Projections of the General Fund revenue from the corporate income tax are based on a combination of econometric analysis, a simulation model of the cash-flow process under quarterly payments, and judgment. Historical corporate income tax collections are correlated with income and financial concepts found in the IEM and Global Insight's *U.S. Economic Outlook*.

The revenue collected in FY 1991 declined as a consequence of declines in one-time cash flow from quarterly payments. Quarterly payments have also accelerated the response time between changes in profit conditions and corporate income tax cash flow. When combined with multi-state apportionment, this yields an accelerated link between national economic conditions and Idaho corporate income tax receipts.

## Historical Data:

### CORPORATE INCOME TAX

(\$ THOUSANDS)

Year		Gross Collections	Distributions			
			Refunds	Gen. Fund	Perm. Building Fund	Multi-State Tax Compact
FY70	Actual	\$11,125.8	\$1,661.1	\$10,645.6	\$52.1	
FY71	Actual	12,562.9	1,875.8	11,736.1	57.5	
FY72	Actual	12,895.0	1,924.9	12,276.3	62.7	
FY73	Actual	16,024.7	3,340.0	15,220.2	68.7	
FY74	Actual	23,076.0	4,021.6	22,161.0	74.0	
FY75	Actual	28,161.7	5,616.1	26,978.7	81.1	
FY76	Actual	31,751.8	2,215.4	29,448.9	87.6	
FY77	Actual	31,033.6	1,931.6	29,009.9	92.1	
FY78	Actual	33,326.2	2,481.8	30,802.9	41.5	
FY79	Actual	39,247.1	3,322.2	35,869.3	55.5	
FY80	Actual	42,603.9	3,133.3	39,363.2	107.4	
FY81	Actual	50,875.5	4,416.2	46,288.4	127.2	\$43.6
FY82	Actual	45,602.0	5,416.2	40,010.6	146.4	26.3
FY83	Actual	39,673.6	10,191.3	29,281.3	149.0	51.9
FY84	Actual	42,226.7	15,504.7	26,535.3	116.6	70.1
FY85	Actual	49,660.1	6,698.2	42,788.0	133.6	40.3
FY86	Actual	50,253.2	6,900.6	43,138.4	150.2	63.9
FY87	Actual	53,276.8	6,878.1	46,165.9	190.9	41.9
FY88	Actual	74,230.7	10,070.2	63,906.1	160.3	94.0
FY89	Actual	80,394.1	7,152.7	72,962.6	209.6	69.3
FY90	Actual	82,635.9	9,914.5	72,492.0	212.3	17.2
FY91	Actual	72,265.0	11,995.9	60,017.2	252.0	0.0
FY92	Actual	71,443.1	13,162.9	57,971.3	194.2	114.7
FY93	Actual	83,582.6	13,194.3	70,003.8	282.0	102.5
FY94	Actual	102,772.3	14,870.6	87,628.2	196.8	76.7
FY95	Actual	152,809.5	20,818.3	131,636.1	250.7	104.4
FY96	Actual	173,392.5	21,128.3	151,979.2	246.7	38.3
FY97	Actual	138,276.6	15,479.0	122,357.2	249.5	190.9
FY98	Actual	136,996.0	19,301.9	117,286.4	283.7	124.0
FY99	Actual	117,073.9	20,927.4	95,437.7	270.0	438.8
FY00	Actual	149,355.2	23,495.3	124,872.9	303.6	683.4
FY01	Actual	173,578.8	31,593.0	141,527.2	349.0	109.5
FY02	Actual	110,751.2	33,982.3	76,295.6	312.0	161.4
FY03	Actual	119,810.7	26,320.8	93,129.7	345.1	15.1
FY04	Actual	126,911.5	23,127.1	103,015.0	367.8	401.6
FY05	Actual	162,696.2	22,110.8	139,561.5	337.1	686.8
FY06	Projection	198,317.4	32,862.4	164,385.0	370.0	700.0
FY07	Projection	209,331.7	34,670.0	173,481.8	380.0	800.0

# SALES TAX

**Description:** (Title 63, Chapter 36, *Idaho Code*)

Sales tax collections in fiscal years 2004 and 2005 are based on a temporary rate of 6% applied to the sales price or value of tangible personal property and services that are subject to sales and use taxation. The sales tax rate returned to 5% on July 1, 2005. Beginning in fiscal year 2005, the Agricultural Equipment Property Tax Exemption is funded by the Sales Tax. The rate and distribution history is shown on the following table.

## SALES TAX RATE HISTORY AND DISTRIBUTION FORMULA

(\$ THOUSANDS)

Effective Date	Tax Rate	Gen. Fund	Perm. Build Fund	Rev. Sharing	Alloc. to Counties <sup>7</sup>	Pollution Control	Public School Inc. Fund	Agricultural Equipment Prop. Tax Exemption	Misc. Distributions
Jul-1965	<u>3.0%</u>	Bal.	\$500						<u>1,2</u>
Jul-1968	3.0%	Bal.	\$500		<u>5.0%</u>				2
Jul-1969	3.0%	Bal.	\$500		<u>10.0%</u>				2
Jul-1970	3.0%	Bal.	\$500		<u>15.0%</u>				2
Jul-1971	3.0%	Bal.	\$500		<u>20.0%</u>				2
Jul-1975	3.0%	Bal.	\$500		20.0%				2,4
Jul-1976	3.0%	Bal.	\$500		20.0%				2,4
Jul-1977	3.0%	Bal.	\$500		20.0%				2,3,4
Jul-1980	3.0%	Bal.	\$500		<u>10.0%</u>		<u>10.0%</u>		2,3,4
Mar-1983	<u>4.0%</u>	Bal.	\$500		10.0%		10.0%		2,3,4
Jun-1983	<u>4.5%</u>	Bal.	\$500		10.0%		10.0%		2,3,4
Jul-1984	<u>4.0%</u>	Bal.	\$500	<u>6.25%</u>	<u>7.5%</u>	\$4,800			3,4
Apr-1986	<u>5.0%</u>	Bal.	\$500	6.25%	7.5%	\$4,800			3,4
Jul-1987	5.0%	Bal.	\$500	<u>7.75%</u>	<u>6.0%</u>	\$4,800			3,4
Jul-1988	5.0%	Bal.	\$500	7.75%	6.0%	\$4,800			3,4,5
Jul-1995	5.0%	Bal.	\$500	7.75%	6.0%	\$4,800			3,4,5,6
Jul-1998	5.0%	Bal.	\$500	7.75%	6.0%	\$4,800			3,4,5
Jul-2000	5.0%	Bal.	<u>\$5,000</u>	<u>13.75%</u>	<u>0.0%</u>	<u>\$4,800</u>			3,4,5
May-2003	<u>6.0%</u>	Bal.	\$5,000	13.75%	0.0%	\$4,800			3,4,6
Jun-2003	6.0%	Bal.	\$5,000	<u>11.50%</u>	0.0%	\$4,800			3,4,5
Jul-2004	6.0%	Bal.	\$5,000	11.50%	0.0%	\$4,800		<u>\$13,448</u>	3,4,5
Jul-2005	<u>5.0%</u>	Bal.	\$5,000	11.50%	0.0%	\$4,800		\$13,448	3,4,5
Aug-2005	5.0%	Bal.	\$5,000	<u>13.75%</u>	0.0%	\$4,800		\$13,448	3,4,5

1. Amount equal to 1-mill of all assessed property values distributed to Teachers Retirement System; \$1,000,000 lump sum (one-time) distribution to Tax Commission.
2. Amount equal to the sum required to be certified by the state controller distributed to the Social Security Trust Fund.
3. Amount equal to the sum required to be certified by the Idaho housing agency.
4. \$1.00 per registration fee on vehicle registration transfers that do not involve sales tax.
5. Amount certified by the Tax Commission as necessary to fund the Circuit Breaker.
6. Amount necessary to fund Property Tax Relief.
7. For the period March 1983 through June 1984 this percentage was applied only to the 3% "base" sales tax rate. Beginning in 2000, this allocation was "folded into" the revenue sharing allocation.

Sales tax funds must be allocated to the Idaho Housing and Finance Association if, within 60 days of the close of the fiscal year, the Chairman of the Housing and Finance Association Board of Commissioners certifies to the State Tax Commission that a deficiency exists in the agency's Capital Reserve Fund. No such certification has been made in any year, nor is one anticipated for the current fiscal year. Beginning in 1996, this provision is limited to no more than \$89 million. Also, it only applies to bonds issued prior to 1996. In effect, this provision has been repealed for bonds issued on or after January 1996.

**Basis of Projection:**

The projections of FY 2006 and FY 2007 net General Fund accruals from the sales tax are based on econometric analysis and judgment. Historic monthly gross collections data are first adjusted for changes in the tax rate and any major collection anomalies. The adjusted data is then related to Idaho wage and salary disbursements and construction data using econometric analysis. Income forecasts from the *Idaho Economic Forecast* are then used to forecast gross sales tax collections. Historical refund levels and the current distribution formula are used to translate gross collections to net General Fund accruals. Judgmental considerations include the results of ongoing revenue monitoring and the expected impacts of new compliance and audit activities.

**SALES TAX**  
(\$ THOUSANDS)

			Distributions									
			Perm.		Alloc.	Pollut-	Property		Agricultural			
Year		Gross Collections	Refunds	Gen. Fund	Building Fund	Rev. Sharing	To Counties	ion Control	Circuit Breaker	Tax Relief	Equipment Prop. Tax Exemption	Misc. Dist.
FY70	Actual	\$41,678.2	\$61.6	\$33,055.0	\$500.0		\$4,161.7					\$3,899.9 <sup>1,2</sup>
FY71	Actual	45,368.6	101.9	34,076.7	500.0		6,790.0					3,900.0 <sup>1,2</sup>
FY72	Actual	51,704.1	81.1	36,967.1	500.0		10,324.6					3,831.3 <sup>1,2</sup>
FY73	Actual	60,999.6	70.3	43,281.3	500.0		12,186.1					4,961.9 <sup>1,2</sup>
FY74	Actual	69,833.3	340.7	49,250.0	500.0		13,898.5					5,844.1 <sup>1,2</sup>
FY75	Actual	79,108.7	100.4	57,022.8	500.0		15,801.7					5,683.8 <sup>1</sup>
FY76	Actual	88,874.0	137.5	63,650.6	500.0		17,747.3					6,838.6 <sup>1</sup>
FY77	Actual	103,859.6	219.2	73,594.5	500.0		20,728.1					8,817.8 <sup>1</sup>
FY78	Actual	118,866.2	157.0	84,107.4	500.0		23,741.8					10,360.0 <sup>1</sup>
FY79	Actual	129,906.4	205.9	91,463.6	500.0		25,940.1					11,796.8 <sup>1</sup>
FY80	Actual	137,113.9	264.5	95,984.6	500.0		27,369.9					12,994.9 <sup>1</sup>
FY81	Actual	145,008.0	220.5	97,679.3	500.0		14,476.0					32,132.2 <sup>1,2</sup>
FY82	Actual	146,206.9	311.8	98,720.2	500.0		14,607.4					32,067.5 <sup>1,2</sup>
FY83	Actual	165,441.1	181.2	115,407.0	500.0		15,266.3					34,086.6 <sup>1,2</sup>
FY84	Actual	241,838.4	596.2	188,422.1	500.0		16,192.2					36,127.9 <sup>1,2</sup>
FY85	Actual	238,544.3	449.7	200,026.6	500.0	\$14,876.1	17,851.5	\$4,800.0				40.4 <sup>3</sup>
FY86	Actual	250,490.1	516.8	211,564.2	500.0	15,036.7	18,044.1	4,800.0				28.3 <sup>3</sup>
FY87	Actual	297,892.0	538.4	259,358.6	500.0	14,853.3	17,827.1	4,800.0				14.6 <sup>3</sup>
FY88	Actual	311,382.5	672.5	258,762.1	500.0	24,084.5	18,637.1	4,800.0	\$3,890.1			36.2 <sup>3</sup>
FY89	Actual	346,682.3	882.4	288,780.3	500.0	26,785.4	20,737.1	4,800.0	4,171.7			25.4 <sup>3</sup>
FY90	Actual	383,096.0	1,664.0	319,290.7	500.0	29,540.7	22,870.2	4,800.0	4,335.5			94.9 <sup>3</sup>
FY91	Actual	404,146.4	3,403.1	335,739.5	500.0	31,036.1	24,028.3	4,800.0	4,491.1			148.3 <sup>3</sup>
FY92	Actual	435,715.5	1,799.1	364,323.0	500.0	33,612.2	26,022.6	4,800.0	4,606.1			52.5 <sup>3</sup>
FY93	Actual	481,357.9	1,163.9	402,819.5	500.0	37,195.6	28,796.9	4,800.0	6,031.2			50.8 <sup>3</sup>
FY94	Actual	541,503.6	1,739.0	452,684.8	500.0	41,789.3	32,353.2	4,800.0	7,504.3			132.9 <sup>3</sup>
FY95	Actual	575,751.5	1,767.4	481,568.8	500.0	44,455.1	34,435.8	4,800.0	8,241.1			-16.6 <sup>3</sup>
FY96	Actual	602,573.0	2,114.2	462,999.7	500.0	46,554.3	36,023.2	4,800.0	8,807.0	\$40,757.1		17.6 <sup>3</sup>
FY97	Actual	624,631.8	2,109.4	476,726.1	500.0	48,240.6	37,347.6	4,800.0	9,609.0	45,238.4		60.7 <sup>3</sup>
FY98	Actual	655,182.6	2,023.6	496,807.8	500.0	50,572.4	39,152.8	4,800.0	10,331.1	50,400.4		594.5 <sup>3</sup>
FY99	Actual	704,734.8	2,784.7	588,796.7	500.0	54,237.7	41,979.4	4,800.0	10,891.7	0.0		744.6 <sup>3</sup>
FY00	Actual	750,125.9	2,741.7	627,503.0	500.0	57,852.8	44,754.6	4,800.0	11,481.2	0.0		492.7 <sup>3</sup>
FY01	Actual	778,886.9	3,464.1	647,293.8	5,000.0	106,024.7	0.0	4,800.0	11,711.3	0.0		593.0 <sup>3</sup>
FY02	Actual	791,623.6	4,103.4	657,119.2	5,000.0	108,500.4	0.0	4,800.0	11,983.5	0.0		117.0
FY03	Actual	839,180.9	3,119.1	700,240.7	5,000.0	112,947.4	0.0	4,800.0	12,787.1	0.0		286.6
FY04	Actual	1,032,987.5	4,312.6	886,079.0	5,000.0	117,825.4	0.0	4,800.0	14,097.7	0.0		872.8
FY05	Actual	1,125,317.0	3,478.3	950,825.2	5,000.0	128,485.1	0.0	4,800.0	14,995.3	0.0	\$16,810.6	922.5
FY06	Projected	1,017,857.8	5,084.3	836,351.6	5,000.0	136,727.5	0.0	4,800.0	15,446.0	0.0	13,448.5	1,000.0
FY07	Projected	1,037,653.8	5,183.3	850,094.8	5,000.0	141,827.2	0.0	4,800.0	16,300.0	0.0	13,448.5	1,000.0

1. Social Security Trust.  
2. Public School Income.  
3. Multi-State Tax Compact.



# LIQUOR SURCHARGE

**Description:** (Title 23, Chapters 2 and 4, *Idaho Code*)

Gross revenue is derived from liquor sold by the State Liquor Dispensary. Two percent of gross liquor revenue is dedicated to the Drug Court and Family Court Services Fund. Idaho Law also provides for the following annual transfers from the Liquor Dispensary's net profits (gross revenue less operating costs): \$4.945 million to the General Fund, \$1.2 million to the Alcoholism Treatment Fund, \$0.3 million to the Community College Fund, \$1.2 million to the Public School Income Fund, and \$0.65 million to the Cooperative Welfare Fund. The remaining balance after these transfers is distributed 40% to counties and 60% to cities. A one-time \$7.2 million appropriation to the Water Resources Revolving Development Fund was made in FY2005.

## Historical Data:

### LIQUOR SURCHARGE

(\$ THOUSANDS)

Year		Gross Distribu.	Distributions									
			General Fund	Alcohol Treat. Fund	Community College Fund	Coop. Welfare Fund	Public School Fund	Budget Reserve Fund	Permanent Building Fund	Drug Court & Family Court Services Fund	Water Resources Revolving Development Fund	Cities & Counties
FY70	Actual	\$7,116.0	\$1,910.4									
FY71	Actual	8,228.1	2,005.5									
FY72	Actual	8,686.9	2,401.0									
FY73	Actual	10,497.1	2,814.7									
FY74	Actual	10,739.6	2,961.7									
FY75	Actual	9,445.4	2,517.4									
FY76	Actual	11,371.8	2,786.1									
FY77	Actual	10,569.5	2,883.4									
FY78	Actual	11,241.4	3,192.7									
FY79	Actual	12,138.3	3,369.9									
FY80	Actual	13,490.0	3,529.6									
FY81	Actual	14,378.7	3,741.8									
FY82	Actual	12,914.8	3,948.1									
FY83	Actual	15,487.2	3,700.0									
FY84	Actual	15,170.2	3,820.0									
FY85	Actual	12,780.1	4,945.0	\$1,200.0	\$300.0	\$650.0	\$1,200.0					\$4,485.1
FY86	Actual	12,294.5	4,945.0	1,200.0	300.0	650.0	1,200.0					3,999.5
FY87	Actual	12,294.8	4,945.0	1,200.0	300.0	650.0	1,200.0					3,999.8
FY88	Actual	10,795.0	4,945.0	1,200.0	300.0	650.0	1,200.0					2,500.0
FY89	Actual	11,377.9	4,945.0	1,200.0	300.0	650.0	1,200.0					3,082.9
FY90	Actual	12,425.0	4,945.0	1,200.0	300.0	650.0	1,200.0					4,130.0
FY91	Actual	12,268.3	4,945.0	1,200.0	300.0	650.0	1,200.0					3,973.3
FY92	Actual	12,999.1	4,945.0	1,200.0	300.0	650.0	1,200.0					4,704.1
FY93	Actual	12,802.8	4,945.0	1,200.0	300.0	650.0	1,200.0					4,507.8
FY94	Actual	26,149.3	4,945.0	1,200.0	300.0	650.0	1,200.0	\$6,255.8				11,178.5
FY95	Actual	18,449.3	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0				10,154.3
FY96	Actual	16,578.1	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0				8,283.1
FY97	Actual	17,417.3	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0				9,122.3
FY98	Actual	16,605.7	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0				8,310.7
FY99	Actual	18,584.1	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0				10,289.1
FY00	Actual	19,891.7	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	\$1,000.0			10,596.7
FY01	Actual	20,293.9	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0			11,998.9
FY02	Actual	21,100.7	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0			12,805.7
FY03	Actual	23,163.0	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0			14,868.0
FY04	Actual	27,775.0	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0	\$2,050.0		17,430.0
FY05	Actual	33,826.0	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0		\$7,200.0	16,520.0
FY06	Projection	33,969.0	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0	1,974.0	0.0	23,700.0
FY07	Projection	36,792.0	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0	2,138.0	0.0	26,359.0

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For more information, please contact the Division of Financial Management.

# CIGARETTE TAX

**Description:** (Title 63, Chapter 25, *Idaho Code*)

The cigarette tax rate is 57 cents per pack of 20 cigarettes. In fiscal year 2006 the revenue from this tax is distributed as follows. The Public School Income Fund and Department of Juvenile Corrections each receive 5.1746 cents per pack. The remaining amount per pack is distributed as follows: the Permanent Building Fund receives 17.3%; the Central Tumor Registry Fund receives 0.4% (to a maximum of the legislative appropriation); the Cancer Control Fund receives 1%; and the General Fund receives 21.25%. All remaining collections accrue to the Economic Recovery Fund.

The cigarette tax distribution changes beginning with fiscal year 2007. The most notable change is the General Fund no longer receives revenue from the cigarette tax. The Public School Income Fund and Department of Juvenile Corrections each still receive 5.1746 cents per pack. The remaining amount per pack is distributed as follows: the Permanent Building Fund receives 17.3%; the Central Tumor Registry Fund receives 0.4% (to a maximum of the legislative appropriation); the Cancer Control Fund receives 1%. All remaining revenues flow to the Permanent Building Fund to be used to repair, remodel, and restore the Capitol and related facilities. After these projects are completed, all remaining revenues are redirected to the Economic Recovery Reserve Fund.

## CIGARETTE TAX RATE AND DISTRIBUTION HISTORY

Effective Date	Rate per Cigarette			Distribution of Remaining Receipts					
	Total	PSIF	Juv. Prob. Svcs.	Gen. Fund	Central Tumor Reg. Fund <sup>2,3</sup>	Perm Build. Fund <sup>4</sup>	Water Poll. Control	Cancer Control Fund	Economic Recovery Reserve Fund
May-1945	\$0.001000			100.0%					
Jul-1947	<u>0.001500</u>			100.0%					
Jul-1955	<u>0.002000</u>			100.0%					
Jul-1959	<u>0.002500</u>			100.0%					
Jul-1961	<u>0.003000</u>			<u>\$0.00250</u>		<u>\$0.00050</u>			
Jul-1963	<u>0.003500</u>			<u>\$0.00300</u>		0.00050			
Jul-1972	<u>0.004550</u>			<u>\$0.00350</u>	<u>\$0.00005</u> to <u>\$40,000</u>	0.00050	<u>\$0.00050</u>		
Jul-1974	0.004550			Balance	<u>1.099%</u> to <u>\$40,000</u>	<u>10.989%</u>	<u>10.989%</u>		
Jul-1975	0.004550			Balance	<u>1.099%</u> to <u>\$55,000</u>	<u>10.989%</u>	<u>10.989%</u>		
Jul-1978	0.004550			Balance	<u>1.099%</u> to <u>\$70,000</u>	<u>10.989%</u>	<u>10.989%</u>		
Jul-1979	0.004550			Balance	<u>1.099%</u> to <u>\$70,000</u>	<u>10.989%</u>	<u>10.989%</u>	<u>3.645%</u>	
Jul-1980	0.004550			Balance	<u>1.099%</u> to <u>\$85,000</u>	<u>10.989%</u>	<u>10.989%</u>	<u>3.645%</u>	
Jul-1982	0.004550			Balance	<u>1.099%</u> to <u>\$95,000</u>	<u>10.989%</u>	<u>10.989%</u>	<u>3.645%</u>	
Jul-1984	0.004550			Balance	<u>1.099%</u> to <u>\$100,000</u>	<u>10.989%</u>	<u>10.989%</u>	<u>3.645%</u>	
Mar-1987	<u>0.009000</u> <sup>1</sup>			<u>Balance</u> <sup>1</sup>	<u>1.099%</u> to <u>\$100,000</u>	<u>10.989%</u>	<u>10.989%</u>	<u>3.645%</u>	
Jul-1987	0.009000			Balance	<u>1.000%</u> to <u>\$100,000</u>	<u>43.300%</u>	<u>6.700%</u>	<u>2.500%</u>	
Jul-1989	0.009000			Balance	<u>1.000%</u> to <u>\$110,000</u>	<u>43.300%</u>	<u>6.700%</u>	<u>2.500%</u>	
Jul-1994	<u>0.014000</u>	<u>\$0.00500</u>		Balance	<u>1.000%</u>	<u>43.300%</u>	<u>6.700%</u>	<u>2.500%</u>	
Mar-1995	0.014000	<u>0.002500</u>	<u>\$0.002500</u>	Balance	<u>1.000%</u>	<u>43.300%</u>	<u>6.700%</u>	<u>2.500%</u>	
Jul-2000	0.014000	0.002500	0.002500	Balance	<u>1.000%</u>	<u>43.300%</u>	<u>0.000%</u>	<u>2.500%</u>	
Jun-2003	<u>0.028500</u>	<u>0.002587</u>	<u>0.002587</u>	Balance	<u>1.000%</u>	<u>43.300%</u>	<u>0.000%</u>	<u>2.500%</u>	
Jul-2003	0.028500	0.002587	0.002587	<u>21.25% plus balance up to \$23.5 M</u>	<u>0.400%</u>	<u>17.300%</u>	<u>0.000%</u>	<u>1.000%</u>	<u>Balance above \$23.5M</u>
Jul-2004	0.028500	0.002587	0.002587	<u>21.25%</u>	<u>0.400%</u>	<u>17.300%</u>	<u>0.000%</u>	<u>1.000%</u>	<u>Balance</u>
Jul-2006	0.028500	0.002587	0.002587	<u>0.00%</u>	<u>0.400%</u>	<u>17.300%</u>	<u>0.000%</u>	<u>1.000%</u>	
						<u>+ Balance</u>			

1. From March 1, 1987 to July 1, 1987 the additional \$0.00445 was all distributed to the General Fund.
2. The Central Tumor Registry Fund receives the lesser of its percentage or its dollar cap.
3. On July 1, 1994 the \$110,000 limit was replaced with a limit not to exceed the legislative appropriation.
4. Receives balance until Capitol restoration complete, then balance accrues to Economic Recovery Reserve Fund.

## Basis of Projection:

The projections of General Fund revenues from this source for FY 2006 and FY 2007 are based on a subjective assessment of recent collections history, Idaho population growth, cigarette taxes in border states, and the trend toward decreased per capita cigarette consumption.

## Historical Data:

### CIGARETTE TAX

(\$ THOUSANDS)

Year		Gross Collections	Distributions									
			Gen. Fund	Base Perm. Building Fund	Additional Perm. Building Fund	Refunds	Water Pollution Fund	Cancer Control Fund	Central Tumor Registry Fund	Public School Income Fund	County Juvenile Probation Fund	Economic Recovery Fund
FY70	Actual	\$4,885.9	\$4,188.0	\$697.9	\$0.0							
FY71	Actual	5,173.4	4,434.4	739.0	0.0							
FY72	Actual	6,136.8	5,260.2	876.6	0.0							
FY73	Actual	8,074.5	6,248.4	867.1	0.0		\$919.1		\$40.0			
FY74	Actual	8,365.7	6,475.7	925.0	0.0		925.0		40.0			
FY75	Actual	8,544.4	6,599.6	939.1	0.0	\$26.6	939.1		40.0			
FY76	Actual	8,866.2	6,868.8	959.9	0.0	22.5	959.9		55.0			
FY77	Actual	8,980.5	6,926.6	983.8	0.0	31.3	983.8		55.0			
FY78	Actual	9,098.5	7,010.6	995.0	0.0	43.0	995.0		55.0			
FY79	Actual	8,919.2	6,841.5	974.2	0.0	59.2	974.2		70.0			
FY80	Actual	9,009.1	6,580.3	981.9	0.0	69.3	981.9	\$325.7	70.0			
FY81	Actual	9,331.1	6,802.3	1,017.8	0.0	70.7	1,017.8	337.6	85.0			
FY82	Actual	9,244.3	6,717.1	1,004.7	0.0	99.5	1,004.7	333.2	85.0			
FY83	Actual	9,288.9	6,746.1	1,010.8	0.0	91.0	1,010.8	335.3	95.0			
FY84	Actual	8,989.8	6,523.7	978.0	0.0	90.8	978.0	324.4	95.0			
FY85	Actual	8,854.8	6,405.2	960.1	0.0	114.9	960.1	318.5	96.0			
FY86	Actual	8,536.9	6,150.2	922.3	0.0	143.9	922.3	305.9	92.2			
FY87	Actual	10,552.8	8,193.4	911.8	0.0	142.2	911.8	302.4	91.2			
FY88	Actual	15,033.9	6,921.0	6,399.8	0.0	253.8	989.8	369.5	100.0			
FY89	Actual	14,782.8	6,792.8	6,283.4	0.0	271.6	972.3	362.8	100.0			
FY90	Actual	12,738.7	5,884.3	5,464.3	0.0	119.1	845.5	315.5	110.0			
FY91	Actual	14,696.2	6,863.4	6,356.8	0.0	15.4	983.6	367.0	110.0			
FY92	Actual	15,205.6	7,072.3	6,547.2	0.0	85.0	1,013.1	378.0	110.0			
FY93	Actual	15,029.6	6,995.1	6,490.5	0.0	40.0	1,004.3	374.7	125.0			
FY94	Actual	16,394.3	7,605.6	7,047.1	0.0	119.4	1,090.4	406.9	125.0			
FY95	Actual	23,270.6	7,245.6	6,733.5	0.0	63.8	1,041.9	388.8	141.0	\$6,537.6	\$1,118.4	
FY96	Actual	25,228.0	7,476.5	6,944.0	0.0	281.9	1,074.5	400.9	141.0	4,454.6	4,454.6	
FY97	Actual	25,053.3	7,486.5	6,953.0	0.0	74.7	1,075.9	401.4	141.0	4,460.4	4,460.4	
FY98	Actual	24,951.0	7,476.9	6,944.3	0.0	3.7	1,074.5	400.9	141.0	4,454.8	4,454.8	
FY99	Actual	24,195.2	7,230.0	6,732.5	0.0	8.9	1,041.7	388.7	155.5	4,318.9	4,318.9	
FY00	Actual	24,417.9	7,295.4	6,789.7	0.0	22.3	1,050.6	392.0	156.6	4,355.7	4,355.7	
FY01	Actual	23,550.6	7,980.8	6,495.7	0.0	214.9	0.0	375.0	150.0	4,167.1	4,167.1	
FY02	Actual	23,410.3	8,000.5	6,511.7	0.0	17.0	0.0	376.0	150.4	4,177.3	4,177.3	
FY03	Actual	24,215.0	8,259.9	6,722.9	0.0	63.1	0.0	388.2	155.3	4,312.8	4,312.8	
FY04	Actual	45,718.9	30,040.5	6,402.0	0.0	254.0	0.0	370.1	148.0	4,252.1	4,252.1	\$0.0
FY05	Actual	45,200.9	7,814.9	6,362.3	0.0	45.2	0.0	367.8	147.1	4,209.9	4,209.9	22,043.9
FY06	Projection	47,052.8	8,100.0	6,594.4	0.0	100.5	0.0	381.2	152.5	4,417.3	4,417.3	22,889.6
FY07	Projection	\$46,542.2	\$0.0	\$6,522.6	\$30,652.5	\$100.5	\$0.0	\$377.0	\$150.8	\$4,369.4	\$4,369.4	\$0.0

# TOBACCO PRODUCTS TAX

**Description:** (Title 63, Chapter 25, *Idaho Code*)

Idaho levies a 35% tax on the wholesale price of tobacco products, except for cigarettes. This entire amount, net of refunds, is remitted to the General Fund. An additional 5% of the wholesale price is also collected. Half of this additional amount is earmarked for the Public School Income Fund, with \$250,000 appropriated to Idaho State Police. The other half of the 5% collected is distributed to the Department of Juvenile Corrections for county juvenile probation services.

## TOBACCO TAX RATE AND DISTRIBUTION HISTORY

Effective Date	Percent of Wholesale Price Distributed to Fund			
	Water Poll. Control	General. Fund	Public School Income	Dept. of Juvenile Corr.
Jul-1972	35.0%	0.0%	0.0%	0.0%
Jul-1994	35.0%	0.0%	5.0%	0.0%
Mar-1995	35.0%	0.0%	2.5%	2.5%
Jul-1996	35.0%	0.0%	2.5% <sup>1</sup>	2.5%
Jul-2000	0.0%	35.0%	2.5% <sup>1</sup>	2.5%

<sup>1</sup> \$250,000 of this amount goes to Idaho State Police.

**Basis of Projection:**

The projections of General Fund revenues from this source for FY 2006 and FY 2007 are based on a subjective assessment of recent collections history, Idaho population growth, inflation, and the trend of reduced consumption of tobacco products.

**Historical Data:****TOBACCO TAX**

\$ THOUSANDS

		Gross Collections	Distributions				
			Gen. Fund	Refunds	Water Pollution Fund	Public School Income Fund	County Juvenile Probation Fund
Year							
FY86	Actual	\$1,350.7	\$0.0	\$7.7	\$1,343.0	\$0.0	\$0.0
FY87	Actual	1,401.4	0.0	1.3	1,400.1	0.0	0.0
FY88	Actual	1,533.2	0.0	1.6	1,531.5	0.0	0.0
FY89	Actual	1,556.8	0.0	0.1	1,556.7	0.0	0.0
FY90	Actual	1,778.4	0.0	3.9	1,774.5	0.0	0.0
FY91	Actual	1,934.4	0.0	49.4	1,885.0	0.0	0.0
FY92	Actual	2,235.8	0.0	4.3	2,231.5	0.0	0.0
FY93	Actual	2,475.5	0.0	5.6	2,469.9	0.0	0.0
FY94	Actual	2,874.6	0.0	15.5	2,859.0	0.0	0.0
FY95	Actual	3,605.4	0.0	2.3	3,167.1	381.8	54.2
FY96	Actual	3,825.7	0.0	5.0	3,343.1	238.8	238.8
FY97	Actual	4,001.8	0.0	89.3	3,423.4	244.5	244.5
FY98	Actual	4,070.5	0.0	56.0	3,512.7	250.9	250.9
FY99	Actual	4,307.6	0.0	3.2	3,766.4	269.0	269.0
FY00	Actual	4,391.1	0.0	7.3	3,835.8	274.0	274.0
FY01	Actual	4,723.0	4,062.8	79.8	0.0	290.2	290.2
FY02	Actual	4,946.8	4,313.1	17.5	0.0	308.1	308.1
FY03	Actual	5,336.8	4,666.1	4.2	0.0	333.3	333.3
FY04	Actual	6,285.5	5,489.1	12.2	0.0	392.1	392.1
FY05	Actual	6,582.7	5,747.4	14.1	0.0	410.5	410.5
FY06	Projection	6,660.1	5,800.0	31.5	0.0	414.3	414.3
FY07	Projection	\$6,888.7	\$6,000.0	\$31.5	\$0.0	\$428.6	\$428.6

## BEER TAX

**Description:** (Title 23, Chapter 10, *Idaho Code*)

A total tax of \$4.65 per 31-gallon barrel, or its equivalent, is levied on beer sold in Idaho. Beer containing more than 4% alcohol by weight is considered to be wine for tax purposes. Of the total beer tax, 20% is distributed to the Alcoholism Treatment Fund, 33% to the Permanent Building Fund, and the remainder (47%) to the General Fund. Historical rates of the tax and its distribution are listed below.

### BEER TAX RATE HISTORY AND DISTRIBUTION MECHANISM

Effective Date	Rate Per 31 Gal. Barrel	Distribution Mechanism
Mar-1935	\$1.55	50% to General Fund (GF); 50% to Public School Income Fund.
Jul-1939	\$1.55	100% to GF.
Jul-1947	\$3.10	100% to GF.
Jul-1961	\$4.65	\$3.10 to GF; \$1.55 to Permanent Building Fund (PBF).
Jul-1980	\$4.65	\$2.17 to GF; \$1.55 to PBF; \$.93 to Alcoholism Treatment Fund (ATF).
Jul-1986	\$4.65	47% to GF; 33% to PBF; 20% to ATF.

**Basis of Projection:**

The projections of General Fund revenue from this source for FY 2006 and FY 2007 are based on an assessment of recent collections, the slow decline in per capita beer consumption, and Idaho population growth.

**Historical Data:**

**BEER TAX**  
(\$ THOUSANDS)

Year		Gross Collections	Distributions			
			Gen. Fund	Perm. Building Fund	Refunds	Alcoholism Treatment Fund
FY70	Actual	\$1,989.6	\$1,326.5	\$663.1		
FY71	Actual	2,097.3	1,398.3	699.1		
FY72	Actual	2,316.1	1,544.1	772.0		
FY73	Actual	2,564.2	1,709.6	854.5		
FY74	Actual	2,690.0	1,793.4	896.5		
FY75	Actual	2,938.3	1,959.0	979.3		
FY76	Actual	3,062.9	2,023.2	1,011.6	\$28.1	
FY77	Actual	3,241.1	2,144.3	1,072.0	24.8	
FY78	Actual	3,326.7	2,200.7	1,100.3	25.7	
FY79	Actual	3,466.0	2,291.6	1,145.7	28.6	
FY80	Actual	3,516.2	2,326.4	1,163.2	26.6	
FY81	Actual	3,215.4	1,498.8	1,068.9	4.7	\$642.9
FY82	Actual	3,574.6	1,669.0	1,190.5	0.9	714.3
FY83	Actual	3,532.0	1,650.3	1,176.0	0.0	705.6
FY84	Actual	3,442.5	1,607.0	1,147.1	0.0	688.3
FY85	Actual	3,422.2	1,597.5	1,140.1	0.5	684.1
FY86	Actual	3,312.6	1,545.5	1,103.5	1.6	662.1
FY87	Actual	3,311.6	1,554.9	1,091.8	3.2	661.7
FY88	Actual	3,251.7	1,527.6	1,072.6	1.4	650.0
FY89	Actual	3,244.5	1,509.9	1,060.1	31.9	642.5
FY90	Actual	3,304.6	1,552.1	1,089.8	2.2	660.5
FY91	Actual	3,414.7	1,602.5	1,125.2	5.1	681.9
FY92	Actual	3,525.6	1,656.9	1,163.4	0.3	705.1
FY93	Actual	3,621.6	1,701.6	1,194.7	1.2	724.1
FY94	Actual	3,643.1	1,711.8	1,201.9	1.0	728.4
FY95	Actual	3,521.7	1,654.1	1,161.4	2.3	703.9
FY96	Actual	3,455.6	1,620.9	1,138.1	7.0	689.7
FY97	Actual	3,468.6	1,629.9	1,144.4	0.8	693.6
FY98	Actual	3,445.8	1,619.4	1,137.0	0.2	689.1
FY99	Actual	3,585.6	1,683.9	1,182.3	2.8	716.5
FY00	Actual	3,737.0	1,754.2	1,231.7	4.6	746.5
FY01	Actual	3,866.4	1,816.5	1,275.4	1.4	773.0
FY02	Actual	3,993.7	1,876.7	1,317.7	0.6	798.6
FY03	Actual	4,070.9	1,912.8	1,343.1	1.0	814.0
FY04	Actual	4,159.9	1,955.0	1,372.7	0.3	831.9
FY05	Actual	4,142.1	1,946.3	1,366.6	1.0	828.2
FY06	Projection	4,257.1	2,000.0	1,404.3	1.8	851.1
FY07	Projection	\$4,469.9	\$2,100.0	\$1,474.5	\$1.8	\$893.6

## WINE TAX

**Description:** (Title 23, Chapter 13, *Idaho Code*)

A tax of \$0.45 per gallon is levied on wine (and beer containing more than 4% alcohol by weight) sold in Idaho. Of the total wine tax, 12% is distributed to the Alcoholism Treatment Fund, 5% to the Idaho Grape Growers and Wine Producers Commission Fund, and the remainder (83%) to the General Fund. Historical rates of the tax and its distribution are listed in the table below.

### WINE TAX RATE HISTORY AND DISTRIBUTION MECHANISM

Effective Date	Rate Per Gallon	State of Origin	Distribution Mechanism
Jul-1971	\$0.45	All	100% to General Fund (GF).
Jul-1980	\$0.45	All	\$0.40 to GF; \$0.05 to Alcoholism Treatment Fund (ATF).
Jul-1984	\$0.20	Idaho	\$0.15 to GF; \$0.05 to ATF.
	\$0.45	Non-Idaho	\$0.40 to GF; \$0.05 to ATF.
Jul-1986	\$0.20	Idaho	88% to GF; 12% to ATF.
	\$0.45	Non-Idaho	88% to GF; 12% to ATF.
Jul-1988	\$0.45	All	88% to GF; 12% to ATF.
Jul-1994	\$0.45	All	83% to GF; 12% to ATF; 5% to Idaho Grape Growers & Wine Producers Commission Fund.



**Basis of Projection:**

The projections of General Fund revenue from this source for FY 2006 and FY 2007 are based on a subjective assessment of recent collection history, the trend toward lower wine consumption per capita, the rising popularity of microbrewery beers, and Idaho population growth.

**Historical Data:**

**WINE TAX**  
(\$ THOUSANDS)

Year		Gross Collections	Distributions			
			Gen. Fund	Refunds	Alcoholism Treatment Fund	ID Grape Growers & Wine Producers Commission
FY70	Actual	\$0.0	\$0.0			
FY71	Actual	0.0	0.0			
FY72	Actual	394.9	394.9			
FY73	Actual	437.1	437.1			
FY74	Actual	425.5	425.5			
FY75	Actual	457.7	457.7			
FY76	Actual	488.5	470.7	\$17.8		
FY77	Actual	502.3	485.6	16.7		
FY78	Actual	591.6	573.0	18.6		
FY79	Actual	652.5	632.1	20.4		
FY80	Actual	657.6	629.5	28.1		
FY81	Actual	609.0	526.9	14.6	\$67.5	
FY82	Actual	759.1	675.3	0.0	83.8	
FY83	Actual	778.1	692.2	0.0	85.9	
FY84	Actual	837.5	744.7	0.0	92.9	
FY85	Actual	872.4	767.0	6.2	99.2	
FY86	Actual	955.2	844.7	0.9	109.6	
FY87	Actual	985.4	862.1	5.7	117.6	
FY88	Actual	989.1	866.7	4.2	118.2	
FY89	Actual	905.9	788.7	9.6	107.6	
FY90	Actual	880.7	771.3	4.2	105.2	
FY91	Actual	853.2	750.1	0.8	102.3	
FY92	Actual	907.1	753.1	51.3	102.7	
FY93	Actual	856.4	750.5	3.5	102.3	
FY94	Actual	918.4	806.2	2.2	109.9	
FY95	Actual	1,375.5	1,140.5	0.7	165.0	\$69.3
FY96	Actual	1,840.4	1,524.1	4.2	220.3	91.8
FY97	Actual	2,005.4	1,663.7	1.0	240.5	100.2
FY98	Actual	2,170.7	1,800.8	1.0	260.4	108.5
FY99	Actual	2,294.1	1,904.0	0.2	275.3	114.7
FY00	Actual	2,375.4	1,963.1	10.2	283.8	118.3
FY01	Actual	2,295.5	1,898.2	8.5	274.4	114.3
FY02	Actual	2,300.8	1,884.8	30.0	272.5	113.5
FY03	Actual	2,372.7	1,969.0	0.4	284.7	118.6
FY04	Actual	2,576.9	2,138.0	1.0	309.1	128.8
FY05	Actual	2,810.1	2,331.8	0.7	337.1	140.5
FY06	Projection	2,896.7	2,400.0	5.2	347.0	144.6
FY07	Projection	\$2,957.0	\$2,450.0	\$5.2	\$354.2	\$147.6

## KILOWATT-HOUR TAX

**Description:** (Title 63, Chapter 27, *Idaho Code*)

Revenue is derived from a one-half mill (\$0.0005) per kilowatt-hour tax on hydro-generated electricity in Idaho. Power used by industrial consumers and for irrigation is exempt from this tax. All collections accrue to the General Fund. This tax has been levied since July 1, 1931.

**Basis of Projection:**

Kilowatt-hour tax receipts for FY 2006 and FY 2007 are based on an assessment of recent collection history in comparison to river flows, water availability, and changes in power generation capacity.

**Historical Data:****KILOWATT-HOUR TAX**

(\$ THOUSANDS)

		Gross Collections	Distributions	
			Refunds	Gen. Fund
Year				
FY70	Actual	\$403.3		\$403.3
FY71	Actual	575.0		575.0
FY72	Actual	550.3		550.3
FY73	Actual	826.1		826.1
FY74	Actual	592.8		592.8
FY75	Actual	408.1		408.1
FY76	Actual	1,255.7	\$88.4	1,167.3
FY77	Actual	597.1	0.1	597.0
FY78	Actual	510.4	0.0	510.4
FY79	Actual	1,651.8	0.0	1,651.8
FY80	Actual	1,404.9	0.0	1,404.9
FY81	Actual	1,607.5	0.0	1,607.5
FY82	Actual	1,755.6	0.0	1,755.6
FY83	Actual	2,176.9	0.0	2,176.9
FY84	Actual	2,412.7	0.0	2,412.7
FY85	Actual	2,270.6	0.0	2,270.6
FY86	Actual	2,100.9	0.0	2,100.9
FY87	Actual	1,819.2	0.0	1,819.2
FY88	Actual	1,487.0	0.0	1,487.0
FY89	Actual	1,593.6	0.0	1,593.6
FY90	Actual	1,677.0	0.0	1,677.0
FY91	Actual	1,783.2	0.0	1,783.2
FY92	Actual	1,615.8	5.3	1,610.5
FY93	Actual	1,478.7	29.4	1,449.3
FY94	Actual	2,125.0	37.0	2,088.0
FY95	Actual	1,686.5	0.0	1,686.5
FY96	Actual	2,947.0	57.1	2,889.9
FY97	Actual	2,973.6	0.0	2,973.6
FY98	Actual	3,239.9	0.0	3,239.9
FY99	Actual	2,885.7	0.0	2,885.7
FY00	Actual	2,800.4	35.0	2,765.4
FY01	Actual	1,796.3	0.0	1,796.3
FY02	Actual	1,794.7	0.0	1,794.7
FY03	Actual	1,803.7	6.7	1,797.0
FY04	Actual	1,827.0	0.0	1,827.0
FY05	Actual	1,534.4	0.0	1,534.4
FY06	Projection	1,900.0	0.0	1,900.0
FY07	Projection	1,900.0	0.0	1,900.0

## MINE LICENSE TAX

**Description:** (Title 47, Chapter 12, *Idaho Code*)

Revenue is derived from a 1% "profit" tax on Idaho mining operations. For mining operations without a cyanidation facility, sixty-six percent of the collections accrue to the General Fund and the remainder (34%) goes to the Abandoned Mine Reclamation Fund. The distribution for the mine license tax collected from mining operations with cyanidation facilities is slightly different. Thirty-three percent of the tax collections from operations with a cyanidation facility are distributed to the General Fund, thirty-three percent goes to the Cyanidation Facility Closure Fund, and the remainder (34%) goes to the Abandoned Mine Reclamation Fund. This tax has been levied since 1935. It was initially set at 3%. It was lowered to 2% in 1972 and lowered again to 1% in 2002. The sharp General Fund increase in FY 1999 and the sharp refund increase in FY 2000 are due to a large payment (\$1.25 million) that was made under protest in FY 1999 then refunded in FY 2000.

**Basis of Projection:**

The projections of General Fund revenue from this source for FY 2006 and FY 2007 are based on a subjective assessment of recent collections history, the current and future levels of employment in mining, and relative mineral prices.

## Historical Data:

### MINE LICENSE TAX (\$ THOUSANDS)

Year		Gross Collections	Distributions			
			Refunds	Cyanidation Facility Closure Fund	Abandoned Mine Reclamation Fund	Gen. Fund
FY70	Actual	\$264.1				\$264.1
FY71	Actual	268.2				268.2
FY72	Actual	152.9				152.9
FY73	Actual	73.9				73.9
FY74	Actual	192.8				192.8
FY75	Actual	482.0				482.0
FY76	Actual	413.6	\$8.1			405.5
FY77	Actual	203.2	0.4			202.8
FY78	Actual	273.5	4.3			269.2
FY79	Actual	552.3	1.4			551.0
FY80	Actual	1,905.9	0.4			1,905.5
FY81	Actual	2,145.2	27.6			2,117.6
FY82	Actual	2,449.4	4.7			2,444.7
FY83	Actual	687.6	14.3			673.3
FY84	Actual	1,106.2	0.9			1,105.3
FY85	Actual	676.1	90.9			585.2
FY86	Actual	380.6	12.0			368.7
FY87	Actual	283.5	0.3			283.2
FY88	Actual	570.8	0.0			570.8
FY89	Actual	215.8	2.6			213.2
FY90	Actual	278.0	25.0			253.0
FY91	Actual	471.8	1.0			470.9
FY92	Actual	588.7	3.1			585.7
FY93	Actual	441.7	331.8			109.9
FY94	Actual	487.6	14.4			473.2
FY95	Actual	291.0	1.2			289.9
FY96	Actual	800.8	0.0			800.8
FY97	Actual	764.7	101.4			663.4
FY98	Actual	1,101.3	140.8			960.5
FY99	Actual	2,241.0	258.1			1,982.9
FY00	Actual	1,038.3	1,344.4		\$353.0	-659.1
FY01	Actual	245.3	64.5		61.5	119.3
FY02	Actual	1,236.8	0.3		420.4	816.0
FY03	Actual	107.2	53.1		18.4	35.7
FY04	Actual	115.3	6.3		37.0	71.9
FY05	Actual	53.2	3.0	\$0.0	17.1	33.1
FY06	Projection	399.6	20.8	0.0	128.8	250.0
FY07	Projection	\$172.3	\$20.8	\$0.0	\$51.5	\$100.0

## INTEREST EARNINGS

**Description:** (Title 67, Chapter 12, *Idaho Code*)

State Treasurer's interest income is derived from investments of idle state funds. Investments are made in time certificates of deposit, U.S. Treasury bills, and repurchase agreements. The earnings from these investments is related to short-term interest rates, coupled with the amount of fund balances available for the Treasurer to invest. All net interest earnings, except those derived from the trust and agency funds, accrue to the General Fund. Beginning in FY 2000, all interest earned on the Permanent Building Fund balance is retained by that fund instead of being paid to the General Fund. In addition, beginning in FY 2000, the Treasurer is allowed to invest in certain corporate financial instruments and United States Small Business Administration Loans.

For historical data see the "Miscellaneous Revenues" table.

### **Basis of Projection:**

The projections of General Fund revenue from this source for FY 2006 and FY 2007 are based on an assessment of the State Treasurer's fund balances, forecasts of interest rates, and agency expectations. The FY 2006 projection includes approximately \$5.1 million of earnings by the Treasurer from the issuance of a tax anticipation note. The FY 2007 projection does not include tax anticipation note earnings.

## COURT FEES AND FINES

**Description:** (Sections 1-402 and 19-4705, *Idaho Code*)

Revenues are derived from court fees and from 8.6% of all fines and forfeitures collected pursuant to the judgment of any court of the state. In the case of Fish and Game law violations, 2.5% goes to the General Fund.

For historical data see the "Miscellaneous Revenues" table.

### **Basis of Projection:**

The projections of General Fund revenue from this source for FY 2006 and FY 2007 are based on an assessment of recent collection history, fee changes, and Idaho population growth.

# INSURANCE PREMIUM TAX

**Description:** (Title 41, Chapters 4, 34, and 39, *Idaho Code*)

In 2004 legislation was passed to phase in a single insurance premium tax rate of 1.5% by calendar 2010 for net direct insurance premiums written in the state. The 2.75% insurance premium tax rate reduces to 1.5% points over the six-year period beginning with calendar year 2005. Specifically, the insurance premium tax is 2.5% in calendar 2005, 2.3% in calendar year 2006, 2.1% in calendar year 2007, 1.9% in calendar year 2008, 1.7% in calendar year 2009, and 1.5% in calendar year 2010. This same legislation gradually increases the reduced rate for companies holding Idaho-based assets from 1.4% to 1.5% over the five-year period beginning with calendar year 2006. The reduced rate is 1.4% in calendar year 2005, 1.42% in calendar year 2006, 1.44% in calendar year 2007, 1.46% in calendar year 2008, 1.48% in calendar year 2009, and 1.5% in calendar year 2010. The percent of a company's assets invested in Idaho required for the reduced rate is 25% in calendar year 2005, 20% in calendar year 2006, 15% in calendar year 2007, 10% in calendar year 2008, 5% in calendar year 2009, and 0% in calendar year 2010. The premium tax rate for surplus lines of insurance is 2.75% through calendar year 2006 and 1.5% beginning with calendar year 2007.

Premium taxes are collected on a quarterly prepayment basis based upon a percentage of the previous year's taxes as reported on the company's filed premium tax return. Prepayment percentages are 60% in June, 20% in September, and 15% in December, with the balance due with the filing in March. The fire insurance premium tax collections are dedicated to the Firemen's Retirement Fund.

The Department of Insurance collects a variety of filing and license fees. These revenues are dedicated to the Insurance Administration Fund to fund operations of the Department of Insurance. At the beginning of each succeeding fiscal year, any balance in the Insurance Administration Fund exceeding the current year appropriation by 25% is transferred to the General Fund. Any such transfer is not included in the Insurance Premium Tax, but is recorded as a miscellaneous agency transfer.

For historical data see the "Miscellaneous Revenues" table.

## **Basis of Projection:**

The projections of General Fund revenue from this source for FY 2006 and FY 2007 are based on forecasts of insurance premium growth, trends in insurance rates and coverage, agency records of insurers qualifying for the lower rate, and company insolvencies that result in credits taken for guaranty association assessments. These variables and parameters are then run through a simulation model of the cash-flow process to capture the effects on prepayment, filing reconciliation collections, and refunds.

## ALCOHOLIC BEVERAGE LICENSES

**Description:** (Title 23, Chapters 9, 10, and 13, *Idaho Code*)

Revenue is derived from the sale of alcoholic beverage licenses to retailers, wholesalers, and manufacturers at a standard fee.

For historical data see the "Miscellaneous Revenues" table.

**Basis of Projection:**

The projections of General Fund revenue from this source for FY 2006 and FY 2007 are based on a subjective assessment of recent collection history and Idaho population growth.

## UNCLAIMED PROPERTY

**Description:** (Title 14, Chapter 5, *Idaho Code*)

Unclaimed property from bank accounts, safe deposit boxes, travelers' checks, life insurance policies, utility deposits, and the like accrue to the state after certain holding periods. Beginning in FY 1983, amounts in the Unclaimed Property Fund exceeding \$100,000 were transferred to the General Fund. Prior to that time, the excess was transferred to the Permanent Building Fund. Beginning in FY 1995, the Tax Commission transferred amounts in the Unclaimed Property Fund exceeding \$250,000 to the General Fund. The holding period before most types of financial properties are considered abandoned is five years.

For historical data see the "Miscellaneous Revenues" table.

**Basis of Projection:**

Projections of unclaimed property are based on a subjective assessment of recent collection history.



## UCC FILINGS

**Description:** (Sections 30-1-122, 53-262, and 67-910, *Idaho Code*)

The principal source of revenue from the Secretary of State is derived from the filings of articles of incorporation. The Secretary of State also collects many other miscellaneous fees, such as Uniform Commercial Code (UCC) filing fees and notary fees. From July 1, 1996 to June 30, 2000, most of the revenue collected accrued to the Commercial Affairs Administrative Fund. Since the beginning of fiscal year 2001, these monies accrue to the General Fund.

For historical data see the "Miscellaneous Revenues" table.

**Basis of Projection:**

Projections of revenue from this source are based on a subjective assessment of recent collection history, recent tax law changes, and agency expectations.

## ESTATE AND TRANSFER TAX

**Description:** (Title 14, Chapter 4, *Idaho Code*)

The Idaho Estate and Transfer Tax is a "Pick Up" tax. The federal code allows a decedent's estate to take a credit against state estate taxes paid, up to certain limits, based on the size of the estate. The amount of Idaho Estate and Transfer Tax due is equal to this credit. The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 phased out this credit so that it does not apply to any deaths after 2004. As a result, the amount of Idaho Estate and Inheritance Tax collected will eventually disappear. Ten percent of the amount collected is distributed to the county of probate and the remainder, net of refunds, accrues to the state's General Fund.

For historical data see the "Miscellaneous Revenues" table.

**Basis of Projection:**

The FY 2006 and FY 2007 General Fund revenue projection for this source is based on a trend analysis of past collections, the impacts of the Federal Economic Growth and Tax Relief and Reconciliation Act of 2001, and judgment.

## OTHER DEPARTMENTS AND TRANSFERS

The primary revenue sources for this miscellaneous category are receipts from the Department of Finance, Department of Lands, Department of Administration, and Department of Agriculture. Other agencies provide lesser amounts on a sporadic basis. Environmental violation penalties assessed by the Department of Environmental Quality are an irregular income source. The annual transfer to the General Fund from the Federal Power Act (through the State Treasurer) is also included. However, the unpredictable nature of other items included in this source is evidenced by the collection history.

For historical data see the "Miscellaneous Revenues" table.

### **Basis of Projection:**

The projections of miscellaneous General Fund revenues for FY 2006 and FY 2007 are based on a subjective assessment of recent collection history and expected transfers.

# MISCELLANEOUS REVENUES

(\$THOUSANDS)

		Distributions to General Fund									
		Estate Tax	Interest Earnings	Court Fees & Fines	Insurance Premium Tax	Alcoholic Beverage Licenses	Un-Claimed Property	UCC Filings	Lands	One-Time Transfers	Other Depts. and Transfers
Year											
FY70	Actual	\$0.0	\$3,216.1	\$1.8	\$4,831.5	\$444.2	\$0.0	\$873.6	\$15.3	\$955.5	\$502.6
FY71	Actual	0.0	3,151.1	310.5	5,345.7	477.3	0.0	683.7	22.9	0.0	663.0
FY72	Actual	0.0	2,172.5	868.1	6,024.1	526.0	0.0	834.6	32.7	1,000.0	757.3
FY73	Actual	0.0	3,055.8	1,056.4	6,664.1	530.6	0.0	1,192.1	100.3	1,500.0	423.2
FY74	Actual	0.0	5,895.8	1,188.1	7,471.6	555.0	0.0	935.2	40.6	0.0	881.8
FY75	Actual	0.0	7,790.3	1,141.5	7,945.6	573.4	0.0	1,130.2	92.4	0.0	540.1
FY76	Actual	0.0	7,013.4	1,242.0	8,915.8	593.0	0.0	1,051.3	103.9	1,000.0	499.1
FY77	Actual	0.0	5,529.3	1,268.1	10,693.5	624.7	0.0	986.3	100.6	0.0	525.6
FY78	Actual	0.0	5,465.2	1,446.6	12,175.2	654.4	0.0	1,536.3	59.2	0.0	588.7
FY79	Actual	0.0	7,382.4	1,618.6	13,555.0	670.4	0.0	1,181.8	286.1	0.0	559.5
FY80	Actual	0.0	12,946.3	1,894.8	14,894.7	719.6	0.0	1,521.9	136.0	0.0	574.5
FY81	Actual	0.0	10,257.4	1,850.8	14,845.9	918.9	0.0	1,510.4	109.4	0.0	792.7
FY82	Actual	0.0	12,282.6	2,036.1	15,442.0	911.5	0.0	512.1	181.7	1,282.7	643.6
FY83	Actual	0.0	8,663.9	2,109.6	22,345.0	939.6	175.3	538.9	165.9	6,115.0	715.1
FY84	Actual	0.0	12,227.9	2,154.9	16,730.0	932.2	597.0	559.6	167.8	435.7	874.8
FY85	Actual	0.0	10,931.1	2,355.3	18,329.8	1,033.8	1,304.9	571.6	174.9	4,097.3	905.3
FY86	Actual	0.0	9,549.6	2,544.1	20,867.5	1,052.5	906.7	624.3	161.3	5,757.5	838.4
FY87	Actual	0.0	7,615.7	2,800.7	21,257.1	1,059.9	866.3	953.8	168.2	9,337.0	987.6
FY88	Actual	0.0	10,010.0	2,860.1	31,182.3	1,035.8	997.7	1,083.0	123.6	942.5	1,041.9
FY89	Actual	0.0	16,178.4	3,135.9	26,217.5	1,033.9	744.9	1,010.6	131.7	2,300.0	1,112.8
FY90	Actual	0.0	17,552.6	3,426.1	25,209.2	1,081.5	1,155.7	1,073.4	158.9	1,000.0	1,270.7
FY91	Actual	0.0	19,387.7	3,331.7	28,643.7	994.5	1,145.4	1,165.6	192.4	325.0	1,922.7
FY92	Actual	0.0	11,810.0	3,390.7	31,944.9	1,010.2	1,353.3	1,396.1	210.7	513.9	1,856.0
FY93	Actual	0.0	10,540.0	3,210.0	28,810.0	960.0	1,335.5	907.6	229.8	0.0	682.6
FY94	Actual	0.0	10,611.2	3,721.9	33,193.5	1,039.0	1,707.9	784.0	220.2	3,420.0	1,264.2
FY95	Actual	0.0	15,000.0	3,894.0	34,934.6	1,072.3	2,089.2	854.5	243.6	0.0	3,391.6
FY96	Actual	0.0	18,541.4	4,244.8	36,126.4	1,047.9	1,387.1	941.2	238.3	145.0	3,182.8
FY97	Actual	0.0	18,243.0	4,707.9	40,262.5	1,140.9	829.4	26.2	240.3	0.0	3,141.2
FY98	Actual	0.0	17,930.0	5,016.3	42,846.5	1,151.6	1,168.0	33.0	265.2	0.0	3,403.5
FY99	Actual	0.0	18,686.7	5,131.7	45,465.2	1,158.1	1,588.9	11.6	317.0	428.0	4,914.7
FY00	Actual	0.0	21,559.7	5,305.7	46,431.9	1,300.2	2,308.2	22.3	703.1	574.8	12,149.7
FY01	Actual	35,806.8	22,303.6	5,493.5	55,880.8	1,224.4	5,809.6	2,007.0	338.3	8,075.0	12,294.8
FY02	Actual	7,589.0	11,334.6	5,188.3	55,370.9	1,363.8	880.7	2,031.8	347.9	15,416.4	8,005.0
FY03	Actual	13,649.2	2,982.2	5,287.8	59,488.8	1,394.2	3,760.3	2,143.5	355.8	14,461.3	5,668.4
FY04	Actual	4,430.6	4,971.3	4,978.5	62,766.6	1,611.5	3,686.5	2,394.9	331.0	71,912.9	2,330.0
FY05	Actual	3,296.6	8,921.1	4,656.3	60,852.6	1,635.4	9,827.6	2,689.0	532.7	2,033.6	22,964.5
FY06	Projection	1,000.0	11,300.0	4,600.0	59,138.0	1,560.0	4,000.0	2,950.0	250.0	762.6	20,657.5
FY07	Projection	\$500.0	\$7,600.0	\$4,670.0	\$59,084.0	\$1,585.0	\$3,500.0	\$3,000.0	\$425.0	\$0.0	\$21,890.0

1. Includes a one-time transfer of \$9,337,000 from the Water Pollution Control Fund.
2. Includes a one-time reversion of \$204,400 from the University of Idaho.
3. Includes offsetting transfers of \$2.0 million from and to the Water Pollution Control Fund; and \$300,000 borrowed and repaid by the Lottery Commission.
4. Includes off-setting transfer of \$1,000,000 borrowed and repaid by the Lottery Commission.
5. Includes on-time transfer of \$125,000 from the Department of Insurance and \$200,000 from the Parks Land Trust.
6. Includes \$513,894 in one-time transfer from State Treasurer's interagency billing and receipts fund in FY 1992.
7. Transfers of: \$3,000,000 from Budget Reserve Fund; \$420,000 from Liquor Fund; and approximately \$350,000 from Department of Finance.
8. Includes a \$1,858,000 transfer from the Department of Finance.
9. Includes a \$1,517,000 transfer from the Department of Finance and a \$145,000 transfer from the Secretary of State.
10. Includes a \$1,117,000 transfer from the Department of Finance.
11. Includes a \$1,567,000 transfer from the Department of Finance.
12. Includes a \$1,245,700 transfer from the Department of Finance, a \$428,000 transfer from the Secretary of State, a \$1,102,395 recovery of cost allocation expenses.
13. Includes a \$1,694,300 transfer from the Department of Finance, a \$574,800 transfer from the Secretary of State, a \$1,203,400 recovery of cost allocation expenses.
14. Includes a \$2,241,970 transfer from the Department of Finance, a \$2,575,000 transfer from the Secretary of State, a \$1,407,407 recovery of cost allocation expenses, a \$5,000,000 transfer from the Department of Environmental Quality, and a \$500,000 transfer from the Department of Lands.
15. Includes a \$2,363,362 transfer from the Department of Finance, a \$1,150,900 recovery of cost allocation expenses, a \$1,046,600 transfer from the Department of Environmental Quality, and a \$7,049,200 transfer for Attorney General fees.
16. Includes a \$1,150,000 recovery of cost allocation expenses and a \$7,300,000 transfer for Attorney General fees.
17. Includes one-time \$50 million transfer from federal government for budget relief and \$17.1 million from Division of Financial Management for recovery of cost allocation expenses.
18. Includes \$13.6 million from Division of Financial Management for recovery of cost allocation expenses.
19. Includes \$13.1 million from Division of Financial Management for recovery of cost allocation expenses.
20. Includes \$15.4 million from Division of Financial Management for recovery of cost allocation expenses.



## *Idaho's Tax Structure*

Exemptions, Credits, Exclusions, and Deductions



# INTRODUCTION

This report is a comprehensive guide to the structure of Idaho's primary General Fund revenue sources. It provides a detailed examination of the various departures from the broadly defined *base* of the income and sales taxes. These two taxes supply well over 90% of the revenue that goes to the General Fund.

The everyday vernacular refers to these departures from the tax base as *tax breaks*. An analogous term used by fiscal analysts is *tax expenditures*. The most common forms they take in the codification of taxes are exemptions, credits, exclusions, and deductions. The end result is always the same: a tax that is defined on the basis of a broad economic concept (income, consumption, wealth, etc.) is not applied uniformly against the broad base of the tax.

The following pages provide both an inventory and an explanation of Idaho's sales and income tax expenditures. The goal is to facilitate greater understanding of these important elements of Idaho's overall fiscal structure. It is not an attempt to judge the merits of any particular tax expenditure.

The definition of a tax expenditure (for the purpose of this report) is *any provision of Idaho law that excludes some portion of the tax base on a selective basis*. Two illustrative examples are the sales tax exemption for prescription drugs and the income tax exclusion for interest earned on certain government-issued securities. In the first case a specific type of consumption (prescription drugs) is excused from the sales and use tax. In the second case a specific source of income (interest from government-issued securities) is excused from the income tax.

Limiting the definition of tax expenditures to Idaho tax provisions is arbitrary and is primarily done to limit the scope of this publication. Indeed, many federal income tax provisions have the effect of granting large tax expenditures within Idaho. The mortgage interest deduction is a good example. Although nothing technically prevents Idaho from treating mortgage interest different than the federal tax law, the practical ramifications prevent Idaho from making large deviations from federal tax law. Consequently, this report ignores tax expenditures that originate in federal tax law. It does, however, look at Idaho departures from the federal tax structure and treats them as Idaho-specific tax expenditures.

Some apparent tax breaks are not really tax expenditures, because their impacts lie outside of the basic definition of the tax base. The sales tax "exemption" for goods purchased for resale is one such case. This is because the sales tax is intended to apply to retail sales, and the "exemption" for goods purchased for resale is the statutory mechanism used to differentiate between retail and wholesale trade. The income tax rate brackets are another example of a tax policy that impacts the amount of revenue produced from the fundamental tax base, but are not considered a selective "exemption" for purposes of this report. That's because all income that falls into a particular bracket is taxed at that bracket's rate, regardless of the overall income (or any other characteristic) of the taxpayer.

This report includes estimates of the cost of each tax expenditure. This is an estimate of how much tax payment is being avoided by the beneficiaries of the tax expenditure. It is not an estimate of the revenue that would be raised by eliminating the tax expenditure. Several additional factors need to be considered when producing a revenue estimate associated with any particular tax law change.

In many cases, especially those involving substantial structural changes, tax law changes could reasonably be expected to change the economic behavior of taxpayers. The fiscal estimates included in this report are based on current economic behavior, meaning they reflect an environment that includes the effect of the tax expenditure. It should be noted that in many cases even the fiscal estimates based on the actual tax structure are difficult to produce. Attempting to factor in behavioral adjustments can add a substantial amount of complexity to the fiscal analysis.

Another factor that is not reflected in these fiscal estimates is the amount of tax gap. The tax gap is the difference between the theoretical amount of revenue associated with eliminating a particular tax expenditure and the actual revenue that would be realized. The probable size of the “tax gap” is impacted by a number of variables, including the manner in which a tax exemption is removed and the amount of resources that are allocated to compliance and collection efforts. Clearly these are variables that are “unknowable” prior to any specific proposal for law changes.

Tax expenditures are placed in the law for a variety of reasons. The primary reasons are to encourage a particular behavior on the part of taxpayers, to provide fiscal relief to particular taxpayers, or to simplify the administration of the tax laws.

In many cases, tax expenditures have an alternative, appropriation-based method for accomplishing the policy objective behind the tax expenditure. Often, the appropriation-based alternative will have significant differences (relative to the tax expenditure) in terms of overhead cost and public policy ramifications.

Overhead cost comparisons associated with tax expenditures vs. appropriations depend on the specific circumstances of the particular tax expenditure/appropriation alternative being considered, and the “value” of both is difficult to examine.

This is particularly the case with sales and income tax expenditures that are made in the context of confidential tax returns. This means that the beneficiaries are only known to the tax authorities. The secrecy of sales and income tax information is protected under felony penalty provisions. The confidentiality associated with tax expenditures seriously inhibits close scrutiny, and makes it difficult or impossible to establish the “value” (as opposed to the cost) of the tax expenditure.

Tax expenditures “cost” the public in the form of lost revenue that could otherwise be used to fund appropriations or reduce tax rates. However, the estimates of the amount of lost revenue contained in this report do not take into consideration the overhead that would be needed to collect the lost revenue. That overhead can vary from very large, as in the case of tax expenditures that are for the purpose of simplifying tax administration, to negative, as in the case of a tax expenditure that in itself increases the administrative costs associated with the particular tax.



# INDIVIDUAL AND CORPORATE INCOME TAX

The Idaho income tax is a tax levied on individuals and corporations based on their income during a 12-month tax period. In the case of businesses (proprietorships, partnerships, and corporations) the concept of income is not gross receipts, but rather is most closely associated with the economic concept of profit.

The rate of Idaho's income tax is a flat 7.6% on corporate income and a maximum of 7.8% on individual income. Rates on individuals vary from a low of 1.6% to a top rate of 7.8%. Idaho's individual income tax brackets are adjusted each year for inflation.

The tax expenditures granted under the income tax can be classified into two principle categories: exemptions based on the source of income (exclusions); and exemptions based on the use of income (deductions and credits). Source exemptions include interest from government securities, capital gains, and social security payments. Use exemptions include donations to educational institutions and purchases of equipment used in business enterprises. Notable features of the income tax structure that are within Idaho's policy discretion but are not considered tax expenditures include: the rate brackets, personal exemptions, and standard deductions. These features of the tax structure have the effect of reducing revenues, but they are not selective with regard to whom they apply.

A special note concerning tax expenditure definitions is relevant in the case of the income tax. Since the foundation of the Idaho income tax is federal adjusted gross income, there are a number of federal tax expenditures that are adopted in Idaho by default. These federal tax expenditures could technically be considered Idaho tax expenditures, since Idaho adopts them by law. However, this report takes the approach that federal tax expenditures related to the definition of taxable income are **not** Idaho tax expenditures. Thus, the federal tax expenditure associated with the mortgage interest deduction is not considered an Idaho tax expenditure. Similarly, Idaho's exclusion of social security income from the income tax base is treated as an Idaho tax expenditure only to the extent that it exceeds the partial federal exclusion for social security income.

## **The principal Idaho income tax expenditures relating to uses of income are:**

- Investment Tax Credit
- Other States Tax Credit
- Elderly Dependent Credit
- Youth and Rehabilitation Credit
- Schools, Libraries, and Museums Credit
- Grocery Credit
- Technological Equipment Deduction
- Long-Term Care Insurance Deduction
- Alternative Energy Device Deduction
- Insulation Deduction
- Workers' Compensation Premium Deduction
- Child Care Deduction
- College Savings Deduction
- Health Insurance Deduction
- Elderly and Developmental Disability Deduction

Adoption Expense Deduction  
Medical Savings Account Deduction  
New Employee Credit  
Riparian Land Improvements Credit (Sunsets 2002)  
Broadband Investment Credit  
County Incentive Investment Credit (only 2000)  
Research Activity Credit  
Promoter Sponsored Events Credit  
Corporate Headquarters Capital Investment Credit (2005-2009)  
Corporate Headquarters Real Property Improvement Credit (2005-2009)  
Corporate Headquarters New Jobs Credit (2005-2009)  
Small Employer Capital Investment Credit (2005-2009)  
Small Employer Real Property Improvement Credit (2005-2009)  
Small Employer New Jobs Credit (2005-2009)

**The principal Idaho income tax expenditures relating to sources of income are:**

Capital Gains Exclusion  
Government Interest Exclusion  
Social Security Exclusion  
Railroad Retirement Exclusion  
Retirement Benefit Exclusion  
Idaho Lottery Winnings Exclusion  
Indian Earnings on Reservation Exclusion  
World War II Reparations Exclusion  
Marriage Penalty Deduction

## SALES AND USE TAX

The Idaho sales tax is a transaction tax levied on the purchase or use of goods and services by consumers, where consumers may be either individuals or businesses. Transactions involving purchases by businesses are included in the sales tax base if the goods or services are consumed by the purchasing business. Transactions involving purchases of goods or services for resale (including components or parts used in manufactured goods) are not considered a part of the sales tax base. The legal incidence of the Idaho sales tax is on the purchaser. Sales taxes are distant relatives of value-added taxes.

The rate of Idaho's sales tax has been 5% since April 1986. A temporary increase to 6% was in effect from May 2003 through June 2005. The sales tax rate returned to 5% on July 1, 2005. No partial exemptions exist. That is, nothing is taxed at a rate below 5% but above 0%.

Consumption, as an economic concept, can be divided into consumption of goods and consumption of services. The purchase of a hotel room is classified as a service, since it is only the right to use the hotel room for a limited time that it is being purchased. Purchase of a tent is classified as a good since the buyer becomes the owner of a tangible item. An interesting characteristic of Idaho's sales tax is that unless specifically exempted, purchase of a tangible good is a taxable event. On the other hand, the purchase of a service is generally not taxable unless the service is specifically included in the list of taxable transactions. Three major service categories that are completely taxable (and therefore are excluded from this compilation of tax expenditures) are "Hotels and Other Lodging Places", "Amusement and Recreation Services", and "Motion Pictures."

The tax expenditures granted under the sales tax can be classified in three principal categories: exemptions based on the *use* of the good or service, exemptions based on the *specific good or service* being purchased, and exemptions based on the *individual or entity* making the purchase or sale.

### **Principal Idaho sales tax expenditures relating to specific uses are:**

- Production Exemption - Equipment
- Production Exemption - Supplies
- Irrigation Equipment and Supplies
- Pollution Control Equipment
- Broadcast Equipment and Supplies
- Publishing Equipment and Supplies
- Commercial Aircraft
- Railroad Rolling Stock and Remanufacturing
- Interstate Trucks
- Out-of-State Contracts
- Trade-in Value
- Sale or Lease of Businesses or Business Assets
- Food Stamps/WIC
- Motor Vehicles Used Outside of Idaho
- Common Carrier Purchases and Out-of-State Sales
- Donations of Real Property to Idaho Government

Incidental Sales of Tangible Personal Property  
Lodging, Eating, and Drinking Places  
School Lunches and Senior Citizen Meals  
Drivers Education Automobiles  
Ski Lifts and Snow-grooming Equipment  
Clean Rooms  
Alternative Electricity-Producing Equipment  
Research and Development Equipment  
Corporate Headquarters Construction (2005-2009)  
Small Employer Headquarters Construction (2005-2009)

**Principal Idaho sales tax expenditures relating to specific goods and services are:**

**Goods Not Taxed**

Motor Fuels  
Heating Materials  
Utility Sales  
Used Mobile Homes  
Vending Machines and Amusement Devices  
Prescriptions and Durable Medical Equipment  
Funeral Caskets  
Containers  
Nonprofit Literature  
Official Documents  
Precious Metal Bullion  
Idaho Commemorative Silver Medallions  
New Manufactured Homes or Modular Buildings  
Telecommunications Equipment

**Services Not Taxed**

Construction  
Agricultural and Industrial Services  
Transportation Services  
Information Services  
Repairs  
Professional Services  
Business Services  
Personal Services  
Health and Medical Services  
Social Services  
Educational Services  
Lottery Tickets and Pari-Mutuel Betting  
Media Measurement Services  
Miscellaneous Services

**Principal Idaho sales tax expenditures relating to specific entities are:**

Educational Institution Purchases  
Hospital Purchases  
Health Entity Purchases  
Canal Company Purchases  
Forest Protective Association Purchases  
Food Bank Purchases  
Nonsale Clothier Purchases  
Centers for Independent Living  
State of Idaho and Local Government Purchases  
Ronald McDonald House Rooms  
INL Research and Development Purchases  
Motor Vehicle Purchases by Family Members  
Sales by 4-H and FFA Clubs at Fairs  
Sales by Non-Retailers (Yard and Occasional Sales)  
Sales by Indian Tribes on Reservations  
Sales of Meals by Churches to Members  
Sales by Outfitters and Guides  
Sales Through Vending Machines  
Auto Manufacturer Rebates  
Incidental Sales of Churches  
Federal Excise Tax Imposed at Retail Level  
Federal Constitutional Prohibitions  
Federal and State Statutory Prohibitions

# Idaho's Tax Structure

## Fiscal Summary

\$ Thousands

		CY2002	CY2003	CY2004	CY2005	CY2006	CY2007
<b>1</b>	<b>Income Tax Expenditures (Calendar Year Basis)</b>						
1.1	<b>Uses of Income Not Taxed</b>						
1.1.01	Investment Tax Credit	\$30,217	\$22,661	\$31,976	\$35,390	\$38,968	\$41,662
1.1.02	Other States Tax Credit	\$29,514	\$30,644	\$41,842	\$44,852	\$48,024	\$50,987
1.1.03	Elderly Dependent Credit	\$408	\$455	\$482	\$492	\$503	\$515
1.1.04	Youth and Rehabilitation Credit	\$6,467	\$7,164	\$7,838	\$7,871	\$8,767	\$9,588
1.1.05	Schools, Libraries, and Museums Credit	\$3,832	\$3,685	\$3,871	\$4,150	\$4,443	\$4,717
1.1.06	Grocery Credit	\$23,715	\$23,909	\$24,493	\$24,915	\$25,309	\$25,703
1.1.07	Recycling Equipment Credit	\$35	\$11	\$8	\$22	\$22	\$22
1.1.08	Technological Equipment Deduction	\$42	\$45	\$48	\$51	\$55	\$58
1.1.09	Long-Term Care Insurance Deduction	\$2,485	\$3,319	\$9,820	\$10,591	\$11,476	\$12,280
1.1.10	Alternative Energy Device Deduction	\$230	\$224	\$241	\$258	\$276	\$292
1.1.11	Insulation Deduction	\$538	\$492	\$530	\$566	\$604	\$641
1.1.12	Workers' Compensation Premium Deduction	\$400	\$400	\$400	\$400	\$400	\$400
1.1.13	Child Care Deduction	\$3,012	\$3,480	\$3,507	\$3,524	\$3,539	\$3,559
1.1.14	College Savings Deduction	\$754	\$1,065	\$1,081	\$1,098	\$1,115	\$1,133
1.1.15	Health Insurance Deduction	\$7,074	\$6,204	\$6,647	\$7,130	\$7,698	\$8,219
1.1.16	Elderly and Developmental Disability Deduction	\$9	\$9	\$9	\$9	\$9	\$9
1.1.17	Adoption Expense Deduction	\$57	\$62	\$48	\$48	\$48	\$48
1.1.18	Medical Savings Account Deduction	\$1,050	\$1,042	\$1,121	\$1,198	\$1,280	\$1,357
1.1.19	New Employees Credit	\$1,210	\$88	\$190	\$1,510	\$1,510	\$1,510
1.1.20	Riparian Land Improvements Credit	\$45	<i>Sunset</i>	<i>Sunset</i>	<i>Sunset</i>	<i>Sunset</i>	<i>Sunset</i>
1.1.21	Broadband Investment Credit	\$677	\$1,059	\$2,642	\$2,925	\$3,220	\$3,443
1.1.22	County Incentive Investment Tax Credit	\$570	\$666	<i>Sunset</i>	<i>Sunset</i>	<i>Sunset</i>	<i>Sunset</i>
1.1.23	Research Activity Credit	\$301	\$417	\$884	\$979	\$1,250	\$1,336
1.1.24	Promoter Sponsored Events Credit	\$37	\$5	\$3	\$15	\$15	\$15
1.1.25	Corporate Headquarters Investment Credit	\$0	\$0	\$0	\$0	\$0	\$0
1.1.26	Corporate Headquarters Real Property Improvement Credit	\$0	\$0	\$0	\$0	\$0	\$0
1.1.27	Corporate Headquarters New Jobs Credit	\$0	\$0	\$0	\$0	\$0	\$0
1.1.28	Small Employer Capital Investment Credit	\$0	\$0	\$0	\$75	\$75	\$75
1.1.29	Small Employer Real Property Improvement Credit	\$0	\$0	\$0	\$125	\$125	\$125
1.1.30	Small Employer New Jobs Credit	\$0	\$0	\$0	\$225	\$225	\$225
1.2	<b>Sources of Income Not Taxed</b>						
1.2.01	Capital Gains Exclusion	\$12,567	\$16,757	\$18,047	\$19,318	\$21,161	\$21,421
1.2.02	Government Interest Exclusion	\$3,543	\$2,907	\$2,974	\$2,976	\$3,309	\$3,617
1.2.03	Social Security Exclusion	\$21,748	\$24,017	\$25,717	\$27,595	\$29,828	\$31,515
1.2.04	Railroad Retirement Exclusion						
1.2.05	Retirement Benefit Exclusion	\$3,850	\$3,950	\$4,206	\$4,496	\$4,850	\$5,117
1.2.06	Idaho Lottery Winnings Exclusion	\$4,183	\$4,252	\$4,322	\$4,394	\$4,467	\$4,542
1.2.07	Indian Earnings on Reservation Exclusion	\$389	\$399	\$431	\$462	\$494	\$525
1.2.08	World War II Reparations Exclusion	\$0	\$0	\$0	\$0	\$0	\$0
1.2.09	Marriage Penalty Deduction	\$11,862	\$0	\$0	\$0	\$0	\$0

# Idaho's Tax Structure

## Fiscal Summary

\$ Thousands

		FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
<b>2</b>	<b>Sales Tax Expenditures (Fiscal Year Basis)</b>						
2.1	<b>Specific Uses Not Taxed</b>						
2.1.01	Production Exemption - Equipment	\$53,809	\$58,208	\$65,368	\$71,669	\$78,036	\$83,267
2.1.02	Production Exemption - Supplies	\$40,734	\$44,064	\$49,484	\$54,253	\$59,073	\$63,033
2.1.03	Irrigation Equipment and Supplies	\$2,616	\$2,681	\$2,748	\$2,817	\$2,887	\$2,959
2.1.04	Pollution Control Equipment	\$2,741	\$2,879	\$3,156	\$3,702	\$4,003	\$4,028
2.1.05	Broadcast Equipment and Supplies	\$1,468	\$1,588	\$1,784	\$1,956	\$2,129	\$2,272
2.1.06	Publishing Equipment and Supplies	\$94	\$102	\$114	\$125	\$136	\$146
2.1.07	Commercial Aircraft	\$1,575	\$1,575	\$1,575	\$1,575	\$1,575	\$1,575
2.1.08	Railroad Rolling Stock and Remanufacturing	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125
2.1.09	Interstate Trucks	\$5,712	\$5,789	\$5,940	\$5,799	\$6,098	\$6,397
2.1.10	Out-of-State Contracts	\$2,447	\$2,647	\$2,973	\$3,259	\$3,549	\$3,787
2.1.11	Trade-in Value	\$24,388	\$24,713	\$25,358	\$24,757	\$26,034	\$27,311
2.1.12	Sale or Lease of Businesses or Business Assets	\$1,161	\$1,256	\$1,411	\$1,547	\$1,684	\$1,797
2.1.13	Food Stamps/WIC	\$4,418	\$5,222	\$5,621	\$5,988	\$6,259	\$6,507
2.1.14	Motor Vehicles Used Outside of Idaho	\$13,622	\$13,804	\$14,164	\$13,828	\$14,542	\$15,255
2.1.15	Common Carrier Purchases and Out-of-State Sales	NA	NA	NA	NA	NA	NA
2.1.16	Donations of Real Property to Idaho Government	\$3	\$3	\$3	\$3	\$3	\$3
2.1.17	Incidental Sales of Tangible Personal Property	\$10	\$10	\$10	\$10	\$10	\$10
2.1.18	Lodging, Eating, and Drinking Places	\$47	\$50	\$54	\$58	\$60	\$63
2.1.19	School Lunches and Senior Citizen Meals	\$2,222	\$2,311	\$2,406	\$2,491	\$2,581	\$2,671
2.1.20	Drivers Education Automobiles	\$33	\$32	\$31	\$32	\$32	\$33
2.1.21	Ski Lifts and Snowgrooming Equipment	\$500	\$500	\$500	\$500	\$500	\$501
2.1.22	Clean Rooms	\$400	\$400	\$400	\$400	\$400	\$400
2.1.23	Alternative Electricity-Producing Equipment	\$0	\$0	\$1,063	\$2,125	\$2,125	\$2,125
2.1.24	Research and Development Equipment	\$0	\$0	\$1,000	\$6,000	\$6,000	\$6,000
2.1.25	Corporate Headquarters Construction	\$0	\$0	\$0	\$0	\$0	\$0
2.1.26	Small Employer Headquarters Construction	\$0	\$0	\$0	\$75	\$75	\$75
2.2	<b>Goods Not Taxed</b>						
2.2.01	Motor Fuels	\$50,968	\$79,027	\$97,995	\$117,149	\$110,226	\$107,886
2.2.02	Heating Materials	\$2,825	\$3,074	\$3,777	\$4,154	\$3,562	\$3,303
2.2.03	Utility Sales	\$59,625	\$61,414	\$63,256	\$65,154	\$67,109	\$69,122
2.2.04	Used Mobile Homes	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300
2.2.05	Vending Machines and Amusement Devices	\$0	\$0	\$0	\$0	\$0	\$0
2.2.06	Prescriptions and Durable Medical Equipment	\$30,754	\$34,711	\$38,239	\$42,731	\$50,074	\$57,411
2.2.07	Funeral Caskets	\$833	\$889	\$949	\$977	\$1,006	\$1,037
2.2.08	Containers	\$22	\$23	\$25	\$27	\$28	\$29
2.2.09	Nonprofit Literature	\$95	\$97	\$98	\$100	\$102	\$103
2.2.10	Official Documents	\$47	\$48	\$49	\$50	\$50	\$51
2.2.11	Precious Metal Bullion	\$465	\$465	\$465	\$465	\$465	\$465
2.2.12	Idaho Commemorative Silver Medallions	\$0	\$2	\$2	\$2	\$2	\$2
2.2.13	New Manufactured Homes or Modular Buildings	\$1,499	\$1,536	\$1,616	\$1,682	\$1,756	\$1,826
2.2.14	Telecommunications Equipment	\$602	\$663	\$729	\$802	\$882	\$970

# Idaho's Tax Structure

## Fiscal Summary

\$ Thousands

		FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
2.3	<b>Services Not Taxed</b>						
2.3.01	Construction	\$84,400	\$94,209	\$114,592	\$124,640	\$123,169	\$124,390
2.3.02	Agricultural and Industrial Services	\$2,190	\$2,224	\$2,270	\$2,313	\$2,358	\$2,403
2.3.03	Transportation Services	\$20,985	\$21,789	\$22,481	\$23,854	\$25,274	\$26,648
2.3.04	Information Services	\$63,039	\$64,178	\$65,365	\$66,420	\$67,463	\$68,506
2.3.05	Repairs	\$27,896	\$29,496	\$31,339	\$33,331	\$35,389	\$37,405
2.3.06	Professional Services	\$90,928	\$96,144	\$102,150	\$108,644	\$115,354	\$121,923
2.3.07	Business Services	\$61,450	\$64,975	\$69,034	\$73,423	\$77,958	\$82,397
2.3.08	Personal Services	\$6,106	\$6,457	\$6,860	\$7,296	\$7,747	\$8,188
2.3.09	Health and Medical Services	\$196,131	\$210,812	\$227,592	\$245,961	\$265,592	\$282,346
2.3.10	Social Services	\$30,612	\$32,904	\$35,523	\$38,390	\$41,454	\$44,069
2.3.11	Educational Services	\$25,208	\$26,655	\$28,320	\$30,120	\$31,980	\$33,801
2.3.12	Lottery Tickets and Pari-Mutuel Betting	\$6,212	\$6,616	\$6,827	\$7,054	\$7,281	\$7,508
2.3.13	Media Measurement Services	\$45	\$46	\$48	\$49	\$51	\$52
2.3.14	Miscellaneous Services	\$1,373	\$1,451	\$1,542	\$1,640	\$1,741	\$1,841
2.4	<b>Specific Entities Not Taxed</b>						
2.4.01	Educational Institution Purchases	\$5,085	\$5,242	\$5,814	\$6,624	\$6,723	\$6,812
2.4.02	Hospital Purchases	\$13,217	\$14,206	\$15,337	\$16,575	\$17,898	\$19,027
2.4.03	Health Entity Purchases	\$235	\$249	\$265	\$281	\$296	\$311
2.4.04	Canal Company Purchases	\$700	\$714	\$734	\$755	\$769	\$784
2.4.05	Forest Protective Association Purchases	\$31	\$31	\$32	\$33	\$34	\$34
2.4.06	Food Bank Purchases	\$167	\$177	\$189	\$200	\$211	\$221
2.4.07	Nonsale Clothier Purchases	\$1	\$1	\$1	\$1	\$1	\$1
2.4.08	Centers for Independent Living	\$3	\$4	\$4	\$4	\$4	\$4
2.4.09	State of Idaho and Local Government Purchases	\$18,552	\$18,259	\$20,012	\$22,400	\$22,203	\$22,543
2.4.10	Ronald McDonald House Rooms	\$1	\$1	\$1	\$1	\$1	\$1
2.4.11	INL Research and Development Purchases	\$2,957	\$3,175	\$3,542	\$3,864	\$4,228	\$4,543
2.4.12	Motor Vehicle Purchases by Family Members	\$1,598	\$1,620	\$1,662	\$1,623	\$1,706	\$1,790
2.4.13	Sales by 4-H and FFA Clubs at Fairs	\$23	\$23	\$23	\$23	\$23	\$23
2.4.14	Sales by Non-Retailers (Yard and Occasional Sales)	\$1,914	\$2,028	\$2,159	\$2,288	\$2,410	\$2,533
2.4.15	Sales by Indian Tribes on Reservations	\$3,002	\$3,214	\$3,468	\$3,716	\$3,858	\$4,020
2.4.16	Sales of Meals by Churches to Members	\$8	\$8	\$9	\$10	\$10	\$10
2.4.17	Sales by Outfitters and Guides	\$13	\$13	\$13	\$13	\$13	\$13
2.4.18	Sales Through Vending Machines	\$1,506	\$1,613	\$1,736	\$1,850	\$1,934	\$2,010
2.4.19	Auto Manufacturer Rebates	\$527	\$534	\$548	\$535	\$563	\$591
2.4.20	Incidental Sales of Churches	\$479	\$508	\$541	\$573	\$604	\$635
2.4.21	Federal Excise Tax Imposed at Retail Level	NA	NA	NA	NA	NA	NA
2.4.22	Federal Constitutional Prohibitions	NA	NA	NA	NA	NA	NA
2.4.23	Other Federal and State Statutory Prohibitions	NA	NA	NA	NA	NA	NA



## TAX STRUCTURE DETAIL

Specific Idaho tax expenditures are detailed in the sections below. Each section contains the expenditure's *Idaho Code* reference, a brief description of its features, and its significant legislative and judicial history.

### INDIVIDUAL AND CORPORATE INCOME TAX

Income tax expenditures fall into one of three categories: exclusions, deductions, or credits. Exclusions are sources of income that are wholly or partially exempt from taxation. Deductions are uses of income (either actual spending or proxies for actual spending) that are wholly or partially exempt from taxation. Credits are deductions from the tax itself that are expressed either as a percentage of some qualifying amount or as a lump sum. Credits may be further divided into those that are refundable, meaning that they can exceed the taxpayer's tax liability and actually lead to a refund, and those that are non-refundable, meaning that they are only usable if there is a tax liability to offset.

In general, deductions and exclusions must be used in the year they are incurred, with the exception of business net operating loss (NOL) carry forwards. Credits may be carried forward for limited time periods in certain cases where specifically authorized in the law.

One notable feature that applies to all income tax expenditures is their interaction with federal income tax. Unlike the sales tax, the Idaho income tax is deductible from federal income taxes. This applies to all corporate taxpayers and to individual taxpayers who itemize their deductions. This means that the "benefit" of an Idaho income tax expenditure is split between Idaho taxpayers and the federal treasury. The terms of the split depend on the marginal federal tax rate of the taxpayer. For a taxpayer in the 35% federal bracket, the benefit of each dollar of Idaho tax expenditure is split \$.65 to the taxpayer, \$.35 to the federal treasury. This feature of the income tax is particularly significant in assessing the cost effectiveness of an Idaho tax expenditure as an incentive for some particular behavior.

#### 1.1.01 Investment Tax Credit *Idaho Code 63-3029B*

Description: Idaho's investment tax credit (ITC) is provided to businesses (proprietorships, partnerships, and corporations) that purchase qualifying property for use in their business. The credit amount is 3% of the qualified investment in depreciable property and is not refundable. The credit taken in a given tax year is limited to no more than 50% of the taxpayer's tax liability as calculated before considering the credit. Credits not used may be carried forward up to fourteen years from the year of qualifying property purchase. The definition of qualified investment is tied to the old federal ITC (repealed in the Tax Reform Act of 1986), with the exceptions that: a) the equipment must have Idaho situs; and b) motor vehicles under 8,000 pounds do not qualify. Mobile property that is only partially used in Idaho is allowed ITC in proportion to its use in Idaho.

History: Idaho's ITC was enacted in 1982. It was amended in 1987 to prevent its automatic repeal by the federal repeal of ITC in 1986. It was amended in 1992 in response to an Idaho Supreme Court case that changed the interpretation of how the credit is applied to equipment that is used both inside and outside Idaho. It was amended in 1994 to make technical changes relating to unitary corporations. It was amended in 1995 to

extend the carryover period from five to seven years, reduce the portion of tax liability that could be offset from 50% to 45%, and eliminated a restriction on replacement property. It was amended in 2000 to increase the portion of tax liability that could be offset from 45% to 50%, and to extend the carryover period from seven to fourteen years. It was amended in 2003 to provide an option to take a property tax exemption instead of the ITC.

#### **1.1.02 Other States Tax Credit *Idaho Code 63-3029***

Description: The credit for taxes paid to other states is available to Idaho resident and part-year resident taxpayers who must pay income tax to another state or territory (or political subdivision thereof) on income that is also taxed by Idaho. The amount of credit is the lesser of the actual tax paid to the other state or territory, or the portion of Idaho tax attributed to the double-taxed income. The Idaho credit is not allowed if the other state or territory provides a credit for taxes paid to Idaho.

History: Initially enacted in 1939 along with the Idaho Income Tax Act. Amended in 1996 to add corporate income, franchise, or excise taxes paid by a subchapter S corporation.

#### **1.1.03 Elderly Dependent Credit *Idaho Code 63-3025D***

Description: This is a refundable credit provided to a resident taxpayer who maintains a household for a family member(s), where that family member is over 65 years of age or developmentally disabled and the taxpayer provides over one-half of the family member's support. The amount of credit is \$100 for each such family member, with no more than \$300 available to the taxpayer in any single year. This credit is allowed in lieu of the elderly and development disability deduction allowed under *Idaho Code*, Section 63-3022E (see item 1.1.16).

History: Enacted in 1981. Amended in 1994 to add developmentally disabled persons to the credit.

#### **1.1.04 Youth and Rehabilitation Credit *Idaho Code 63-3029C***

Description: This is a credit provided to taxpayers who make charitable contributions to the Anchor House, the North Idaho Children's Home, the Idaho Youth Ranch, the Children's Home Society of Idaho, Inc., Kinderhaven, Women's and Children's Alliance, Children's Village, Gem Youth Services, Hope House, non-profit centers for independent living located within Idaho, or to non-profit rehabilitation facilities located in Idaho and accredited by the Commission on Accreditation of Rehabilitation Facilities or their foundations. The credit is calculated as 50% of the contribution. For individual taxpayers the credit is limited to the lesser of \$100 or 20% of the taxpayer's income tax liability. For corporations the credit is limited to the lesser of \$500 or 10% of the taxpayer's income tax liability. There is no carry over provision.

History: The credit was enacted in 1982.

#### **1.1.05 Schools, Libraries, and Museums Credit *Idaho Code 63-3029A***

**Description:** A credit is allowed for charitable contributions to Idaho public and private nonprofit schools (elementary, secondary, and higher education), their foundations, trusts, or associations; to Idaho Public Libraries and Library Districts, or their foundations; to Idaho Education Public Broadcast foundations; to the Idaho State Historical Society or its foundation; to the Idaho State Library; or to non-profit public or private museums located within Idaho. The credit is 50% of the contribution. In the case of individuals, it is limited to 20% of the taxpayer's income tax liability or \$100 whichever is less. In the case of corporations, the credit is limited to 10% of the tax liability or \$1,000 whichever is less.

**History:** Originally enacted in 1976, the school credit applied only to private nonprofit secondary or higher education institutions. Elementary schools were added in 1977. Public institutions of higher education were added in 1978. All public schools and public libraries were added in 1984. The Idaho Public Broadcast System was added in 1986. Foundations of the qualifying institutions were added in 1987. The Idaho Historical Society was added in 1992. Non-profit museums were added in 1994. The Idaho State Library was added in 1998. University-related research parks were added in 1999.

#### **1.1.06 Grocery Credit *Idaho Code 63-3024A***

**Description:** This credit is available to every Idaho resident (or part-year resident) who appears as a personal exemption on an Idaho income tax return. It is not available to Idaho residents who do not have sufficient income to meet Idaho's income tax filing requirement unless they are over 62 years of age, are blind, or are a disabled American veteran. The credit amount is \$20 for individuals under 65 years of age, \$35 for individuals 65 years of age or older. Part-year residents are entitled to a proportionate credit reflecting the portion of the year they were domiciled in Idaho. There are no carry-over provisions associated with the grocery credit.

**History:** The grocery credit was originally enacted in 1965. It was amended in 1972 to make the credit refundable for residents over 65 years of age. It was amended in 1975 to make it refundable for resident taxpayers of all ages who meet the filing requirements. It is not refundable to non-residents. The grocery credit was amended in 1978 to raise the credit for individuals 65 years of age and older from \$20 to \$30. It was amended in 1983 to add statute of limitation to the credit. It was amended in 1996 to restrict the credit to residents. The grocery credit was amended in 2001 to raise the credit from \$15 to \$20 for individuals under 65 years of age and from \$30 to \$35 for individuals 65 years of age and older.

#### **1.1.07 Recycling Equipment Credit *Idaho Code 63-3029D***

**Description:** This credit is for 20% of the cost of equipment used in manufacturing products that consist of at least 90% post-consumer waste. The credit is limited to no more than \$30,000 in a single tax year, and unused portions may be carried forward up to seven years. It is non-refundable.

**History:** This credit was enacted in 1994.

#### **1.1.08 Technological Equipment Deduction *Idaho Code 63-3022J***

Description: A deduction from taxable income is allowed to individuals and corporations for the fair-market value of computers and scientific equipment (and computer software) that are donated to Idaho public schools, public libraries, or public and private colleges and universities. The equipment may not be over five years old at the time of donation, and the recipient must issue a written statement accepting the donation. The deduction cannot reduce taxable income to less than zero.

History: This deduction was enacted for schools in 1984 as 63-3025B. Libraries were added in 1985. Colleges and universities were added in 1995. The section was moved to 63-3022J in 1995.

#### **1.1.09 Long-Term Care Insurance Deduction *Idaho Code 63-3022Q***

Description: This deduction from Idaho taxable income is for 100% of premiums for long-term care insurance.

History: Enacted in 2001. Amended in 2004 to cover 100% of long-term care insurance premiums. Original deduction applied to 50% premiums.

#### **1.1.10 Alternative Energy Device Deduction *Idaho Code 63-3022C***

Description: The Alternative Energy Device Deduction allows a deduction for the cost of acquiring, constructing, and/or installing wood, pellet, solar, wind, geothermal energy, or natural gas/propane devices in the taxpayer's residence. The deduction is limited to 40% of the cost in the first year and 20% of the cost in the next three years. No single year's deduction may exceed \$5,000. A taxpayer who buys a residence may claim any unused deduction associated with that residence subject to the restrictions noted above.

History: Enacted in 1976. Amended in 1994 to add natural gas and propane heating units, and to require that replaced wood burning stoves be surrendered to the Idaho Division of Environmental Quality.

#### **1.1.11 Insulation Deduction *Idaho Code 63-3022B***

Description: This deduction is for the cost of insulation installed in buildings that "existed" as of January 1, 1976 and served as a residence of the taxpayer. A building "existed" if it was already built, under construction, or subject to an outstanding building permit. The insulation cannot be replacement for existing insulation.

History: Enacted in 1976.

#### **1.1.12 Workers' Compensation Premium Deduction *Idaho Code 63-3022(m)***

Description: This deduction is allowed to self-employed individuals for the cost of workers' compensation insurance that has not already been deducted in arriving at taxable income.

History: Enacted in 1990.

#### **1.1.13 Child Care Deduction *Idaho Code 63-3022D***

Description: The Child Care Deduction allows individual taxpayers to deduct childcare expenses which qualify for purposes of computing the federal child care credit. The maximum deduction allowed is \$2,400 for one qualifying child and \$4,800 for two or more qualifying children.

History: This deduction was enacted in 1977 in response to the federal switch from a deduction to a credit.

#### **1.1.14 College Savings Deduction *Idaho Code 63-3022(o)***

Description: A deduction is allowed for amounts contributed to a college savings program (as defined in Chapter 54, Title 33, *Idaho Code*). The deduction is limited to a maximum of \$4,000 per tax year.

History: Enacted in 2000.

#### **1.1.15 Health Insurance Deduction *Idaho Code 63-3022P***

Description: A deduction is allowed for payments for health insurance so long as those payments were not otherwise deductible from taxable income.

History: Enacted in 2000 for self-employed persons; added all persons in 2001.

#### **1.1.16 Elderly and Developmental Disability Deduction *Idaho Code 63-3022E***

Description: This is a deduction from taxable income of \$1,000 for each eligible member of a household that is maintained by the taxpayer. The eligible members must be either 65 years of age or older, or developmentally disabled. The maximum amount of the deduction that the taxpayer can claim in any one tax year is \$3,000.

History: This deduction was enacted in 1981. Amended in 1984 to add developmentally disabled persons to the qualifying dependents. Amended in 1994 to allow the deduction on the developmentally disabled person's own return.

#### **1.1.17 Adoption Expense Deduction *Idaho Code 63-3022I***

Description: This deduction is for up to \$3,000 of actual legal fees and medical costs incurred in an adoption.

History: This deduction was enacted in 1994.

#### **1.1.18 Medical Savings Account Deduction *Idaho Code 63-3022K***

Description: This is a deduction for contributions to medical savings accounts. It is limited to a maximum of \$2,000 per taxpayer (per spouse on joint returns). Other restrictions apply.

History: This deduction was originally enacted in 1994 as Title 41, Chapter 53. Amended in 1995 to eliminate a restriction to high-deductible insurance policies, eliminated administrative responsibilities from the depository institution, and allowed taxpayer funded accounts to qualify. Also, it was moved to 63-3022K in 1995.

#### **1.1.19 New Employees Credit *Idaho Code 63-3029F***

Description: A \$1,000 credit is granted for each new employee who was paid an average of \$15.50 per hour during the calendar year and was eligible to receive employer-provided accident or health insurance. A \$500 credit is available for each new employee in a business involved in manufacturing or processing any natural resource product. Businesses must choose between credits, since only one type of credit per new job can be used. The amount of credit that can be claimed in any one tax year is limited (along with most other credits) to 50% of the tax otherwise imposed, and may not exceed 3.25% of the taxpayer's net income. Unused credits may be carried forward up to 3 years.

History: Enacted in 2000. Amended in 2001 to cover all new employees, but only for tax year 2001. In 2003, the credit limit raised from 45% to 50% of tax otherwise imposed. Expanded in 2004 to include jobs that meet the hourly pay threshold and offer insurance coverage.

#### **1.1.20 Riparian Land Improvements Credit *Idaho Code 63-3024B***

Description: This is a 50% credit for expenditures related to improving the habitat for threatened/endangered species or riparian habitat. The credit is limited to no more than \$2,000 per person per year, and no more than \$250,000 for all such credits allowed in a single tax year.

History: Enacted in 1997, effective January 1, 1998, sunsets December 31, 2002.

#### **1.1.21 Broadband Investment Credit *Idaho Code 63-3029I***

Description: This is a 3% credit for expenditures in qualified broadband equipment in Idaho. The credit is limited to no more than \$750,000 per taxpayer per year, and no more than the taxpayer's liability after all other credits in a single tax year. It can be carried forward for up to 14 years. This credit is transferable (sellable) to other taxpayers.

History: Enacted in 2001, effective January 1, 2001.

#### **1.1.22 County Incentive Investment Tax Credit *Idaho Code 63-3029J***

Description: This is a variable rate credit for expenditures that qualify for Idaho's Investment Tax Credit (see 1.1.01). Its rate is the greater of one-half of the amount by which the average three-year unemployment rate in the county in which the property is located exceeds 6%, or one-tenth of one percentage point for each full percentage point the three-year average per-capita income level in the county in which the property is located is below 90% of the statewide average per-capita income level. The credit is limited to no more than \$500,000 per taxpayer, and no more than the taxpayer's liability after all other credits in a single tax year. It can be carried forward for up to 14 years. This credit is transferable (sellable) to other taxpayers.

History: Enacted in 2001, effective January 1, 2001, sunsets December 31, 2001.

#### **1.1.23 Research Activity Credit *Idaho Code 63-3029G***

Description: This is a 5% credit for expenditures related to qualified research as defined in section 41 of the Internal Revenue Code. The research must be conducted in Idaho. The credit is limited to no more than the taxpayer's liability after all other credits in a single tax year.

History: Enacted in 2001, effective January 1, 2001.

#### **1.1.24 Promoter Sponsored Events Credit *Idaho Code 63-3620C(3)(b)***

Description: This provides a refundable income tax credit in the amount of \$1.00 for each temporary sales tax permit a sponsor or promoter of "promoter sponsored events" issues. Promoter sponsored events may include swap meets, flea markets, gun shows, fairs, and other similar events.

History: Enacted in 1999.

#### **1.1.25 Corporate Headquarters Investment Credit *Idaho Code 63-2903***

Description: This credit is contingent on a taxpayer qualifying under the "Idaho Corporate Headquarters Incentive Act of 2005." It provides an income tax credit of 6% of the purchase price of new equipment installed anywhere in Idaho. Qualifying equipment is the same as equipment that qualifies under Idaho's 3% Investment Tax Credit (see 1.1.01). This credit is in lieu of the Investment Tax Credit, is limited to no more than \$5,000,000 in any one tax year, and is not subject to the 50% limit specified in 63-3029B. This credit can be generated for eligible equipment purchases occurring through December 31, 2009. Unused credits can be carried-forward for up to 14 years. General qualification criteria are specified in 63-2902, and can be summed up as making an investment of at least \$50 million in new corporate headquarters facilities and adding at least 500 new jobs that either a) each pay over \$50,000 per year, or b) that average \$65,000 per year.

History: Enacted in 2005.

#### **1.1.26 Corporate Headquarters Real Property Improvement Credit *Idaho Code 63-2904***

Description: This credit is contingent on a taxpayer qualifying under the "Idaho Corporate Headquarters Incentive Act of 2005." It provides an income tax credit of 10% of the purchase price of new plant (buildings and structural components of buildings) within the project site as specified in 63-2902. This credit is limited to no more than \$500,000 in any one tax year, and is not subject to the 50% limit specified in 63-3029B. This credit can be generated for plant purchases occurring through December 31, 2009. Unused credits can be carried-forward for up to 14 years. General qualification criteria are specified in 63-2902, and can be summed up as making an investment of at least \$50 million in new corporate headquarters facilities and adding at least 500 new jobs that either a) each pay over \$50,000 per year, or b) that average \$65,000 per year.

History: Enacted in 2005.

#### **1.1.27 Corporate Headquarters New Jobs Credit *Idaho Code 63-2905***

Description: This credit is contingent on a taxpayer qualifying under the “Idaho Corporate Headquarters Incentive Act of 2005.” It provides an income tax credit ranging from \$1,500 to \$3,000 for each eligible new job created through December 31, 2009. This credit is not subject to the 50% limit specified in 63-3029B. Unused credits can be carried-forward for up to 10 years. General qualification criteria are specified in 63-2902, and can be summed up as making an investment of at least \$50 million in new corporate headquarters facilities and adding at least 500 new jobs that either a) each pay over \$50,000 per year, or b) that average \$65,000 per year.

History: Enacted in 2005.

#### **1.1.28 Small Employer Capital Investment Credit *Idaho Code 63-4403***

Description: This credit is contingent on a taxpayer qualifying under the “Idaho Small Employer Incentive Act of 2005.” It provides an income tax credit of 3.75% of the purchase price of new equipment installed anywhere in Idaho. Qualifying equipment is the same as equipment that qualifies under Idaho’s 3% Investment Tax Credit (see 1.1.01). This credit is in lieu of the Investment Tax Credit, is limited to no more than \$1,250,000 in any one tax year, and is subject to a 62.5% limit instead of the 50% limit specified in 63-3029B. This credit can be generated for eligible equipment purchases occurring through December 31, 2009. Unused credits can be carried-forward for up to 14 years. General qualification criteria are specified in 63-4402, and can be summed up as making an investment of at least \$1 million in new headquarters facilities and adding at least 1 new job paying at least \$50,000 per year for each \$100,000 of investment in new headquarters facilities.

History: Enacted in 2005.

#### **1.1.29 Small Employer Real Property Improvement Credit *Idaho Code 63-4404***

Description: This credit is contingent on a taxpayer qualifying under the “Idaho Small Employer Incentive Act of 2005.” It provides an income tax credit of 2.5% of the purchase price of new plant (buildings and structural components of buildings) within the project site as specified in 63-2902. This credit is limited to no more than \$125,000 in any one tax year. This credit can be generated for plant purchases occurring through December 31, 2009. Unused credits can be carried-forward for up to 14 years. General qualification criteria are specified in 63-4402, and can be summed up as making an investment of at least \$1 million in new headquarters facilities and adding at least 1 new job paying at least \$50,000 per year for each \$100,000 of investment in new headquarters facilities.

History: Enacted in 2005.

#### **1.1.30 Small Employer New Jobs Credit *Idaho Code 63-4405***

Description: This credit is contingent on a taxpayer qualifying under the “Idaho Small Employer Incentive Act of 2005.” It provides an income tax credit ranging from \$1,500 to \$3,000 for each eligible new job created through December 31, 2009. This credit is not subject to the 50% limit specified in 63-3029B. Unused credits can be carried-



forward for up to 10 years. General qualification criteria are specified in 63-4402, and can be summed up as making an investment of at least \$1 million in new headquarters facilities and adding at least 1 new job paying at least \$50,000 per year for each \$100,000 of investment in new headquarters facilities.

History: Enacted in 2005.

#### **1.2.01 Capital Gains Exclusion *Idaho Code 63-3022H***

Description: This exclusion is allowed for 60% of the gain from the sale of certain property. To qualify for this exclusion the property must have had an Idaho situs at the time of sale, and is limited to real property held for at least eighteen months; tangible personal property that was used in manufacturing, mining, agriculture, wholesaling, or research and development and held for twelve months or longer; cattle or horses held for twenty-four months or longer; other breeding livestock held twelve months or longer; or timber held for over twenty-four months or longer.

History: Enacted in 1987. Amended in 1995 to add various restrictions, including a requirement that qualifying timber must be grown in Idaho, and livestock gain claimants must derive at least half of their gross income from farming or ranching operations in Idaho. Amended in 1998 to reduce the holding period for real estate from five years to eighteen months. Amended in 2005 to reduce the holding period for real estate from eighteen months to 12 months.

#### **1.2.02 Government Interest Exclusion *Idaho Code 63-3022M;***

Description: This exclusion is for the amount of interest earned on securities issued by the State of Idaho and/or local governments, and interest earned on securities issued by the federal government. The interest exclusion must be reduced by an amount that is calculated by multiplying the taxpayer's total deductible interest expense, times the ratio of the value of assets subject to the government interest exclusion, to the value of the taxpayer's assets in total.

History: This exclusion has been in effect since enactment of the income tax.

#### **1.2.03 Social Security Exclusion *Idaho Code 63-3022(o)***

Description: This exclusion is for the amount of social security income that is included in arriving at federal adjusted gross income. No social security income is subject to Idaho's income tax.

History: This exclusion was enacted in 1984 in response to federal taxation of a portion of social security income.

#### **1.2.04 Railroad Retirement Exclusion *Idaho Code 63-3022(o)***

Description: This exclusion is for the amount of railroad retirement benefits paid by the Railroad Retirement Board that are included in federal adjusted gross income. Railroad retirement is the equivalent of social security for railroad employees.

History: Enacted in 1984.

#### **1.2.05 Retirement Benefit Exclusion *Idaho Code 63-3022A***

Description: This exclusion is for retirement benefits paid by any of the following: a) U.S. civil service; b) fireman's retirement fund of Idaho; c) policeman's retirement fund of a city within Idaho; and d) U.S. Military. The exclusion is available to either retirees or un-remarried widows of retirees who are 65 years of age or older, or are disabled and 62 years of age or older. The exclusion is limited to the actual retirement payment or the maximum amount of social security benefits available, whichever is less.

History: This exclusion was enacted in 1973. It is revised annually by the Tax Commission to adjust the maximum exclusion amount.

#### **1.2.06 Idaho Lottery Winnings Exclusion *Idaho Code 67-7439***

Description: Excludes Idaho Lottery prizes of less than \$600 from taxable income.

History: Originally enacted in 1988 as a 100% exclusion. Amended in 1997 to limit the income exclusion to prizes of less than \$600 (effective 1/1/98). Amended in 1998 to restrict the exclusion to Idaho State Lottery winnings.

#### **1.2.07 Indian Earnings on Reservation Exclusion *Idaho Income Tax Regulation 30***

Description: Income earned on an Indian reservation by an Indian who lives on the reservation is not taxable by the state. To qualify for the exclusion, the Indian must be an enrolled member of a federally recognized Indian tribe.

History: This exclusion is the result of various treaties and case law.

#### **1.2.08 World War II Reparations Exclusion *Idaho Code 63-3022G***

Description: Amounts paid to individuals from the United States Civil Liberties Public Education fund.

History: Enacted in 1989.

#### **1.2.09 Marriage Penalty Deduction *Idaho Code 63-3022N***

Description: Idaho joint income tax returns are given an additional standard deduction amount equal to double the single standard deduction less the joint deduction. This deduction is not available to returns that claim itemized deductions. Beginning in 2003 the federal standard deduction for joint filers will be twice the standard deduction for single filers, which will eliminate the Idaho Marriage Penalty deduction.

History: Enacted in 1999 at a level of \$150. Amended in 2000 to make it the difference between the joint standard deduction and two times the single standard deduction. Eliminated in 2003 by federal tax policy.

## SALES AND USE TAX DETAIL

The following sales tax expenditures can be divided into four broad categories: 2.1.01 through 2.1.22 cover sales tax expenditures that are related to the specific uses of goods and services; 2.2.01 through 2.2.14 cover sales tax expenditures that are related to specific goods; 2.3.01 through 2.3.14 cover sales tax expenditures that are related to specific services; and 2.4.01 through 2.4.23 cover sales tax expenditures that are related to specific entities that receive exemptions on either all or part of the purchases or sales they make.

The listing for exempt services requires a special note. While a variety of classification systems are possible, the classification used here follows the structure of the North American Industry Classification System (NAICS) Manual, Executive Office of the President, Office of Management and Budget. This classification system was chosen because it is the basis for reporting a considerable variety of economic data, including that used for estimating the revenue impact associated with the various services delineated.

The NAICS coding system is based on the primary activity of the establishment being coded. For example, one of the activities included under the major group heading Personal Care Services is Barber Shops and Beauty Salons. The primary function of these establishments is the performance of haircuts and hair styling, both personal services that are presently exempt from sales tax. However, such establishments will also typically engage in retailing hair care products, transactions that are taxable. Thus, the receipts of a service establishment (such as a barbershop) can contain both exempt and taxable components. This is taken into consideration in the estimates of fiscal impact contained herein.

Another feature of the services classification used in this document relates to the classification of types of services vs. classification of industrial categories. NAICS categories include major groupings for Repair and Maintenance. This category includes repairs to televisions, stereos, appliances, tools, watches, jewelry, furniture, and most other tangible property. This group covers the bulk of all "repair services."

For these reasons, care must be taken in moving from this classification of services (based on NAICS definitions) and any other classification of services (based on broader conceptual notions, such as repairs to tangible personal property).

### **2.1.01 Production Exemption - Equipment *Idaho Code 63-3622D; 63-3622JJ***

Description: This feature of the production exemption exempts equipment used to produce a taxable product. Production activities covered by this exemption are limited to manufacturing, processing, fabricating, logging, farming, and mining. The equipment must be primarily and directly used in the production activity to qualify. Also, the claiming entity must be primarily engaged in a qualifying activity for its equipment to qualify. The only exception to this is logging, where any logging equipment qualifies.

Certain specific exclusions from the production exemption exist. They include: hand tools with a unit purchase price of \$100 or less; equipment that is used in activities other than the actual production activity; equipment used in research and development; equipment used in transportation, including motor vehicles and aircraft that are required to be licensed by any state; equipment used to make repairs; any

tangible personal property that is or is intended to become a component of real property; recreational vehicles; equipment used to produce exempted gas, electricity, water, heating materials, literature, or liquor.

**History:** This exemption was originally enacted in 1965 as 63-3622D. In 1987, custom farmers were added to the exemption by amending 63-3603, definition of farming. In 1989, 63-3605A was added to include contract loggers in the production exemption. In 1990, logging was moved to a separate section and expanded to include persons who are not primarily engaged in logging. It was amended in 1991 in response to the Haener decision (Idaho Supreme Court) by adopting the integrated plant doctrine, exempting equipment used to fabricate or install production equipment, and adding safety equipment.

### **2.1.02 Production Exemption - Supplies *Idaho Code 63-3622D, 63-3622JJ***

**Description:** This feature of the production exemption exempts supplies used in the process of producing a product for resale. Production activities covered by this exemption are limited to manufacturing, processing, fabricating, farming, logging, and mining. The supplies must be primarily and directly used in the production activity to qualify. Also, the claiming entity must be primarily engaged in a qualifying activity for its production supplies to qualify. The only exception to this is logging, where any logging supplies qualify.

Certain specific inclusions to the production exemption for supplies exist. They include: repair parts, lubricants, hydraulic oil, coolants, chemicals, catalysts, safety supplies (except for logging), and, in the dairy industry, disinfectants used to clean cow udders or to clean pipes, vats, or other milking equipment. Fuel used in logging trucks is also exempt.

Certain specific exclusions from the production exemption for supplies exist. They include: supplies that are used in activities other than the actual manufacturing, mining, farming, or logging process; supplies used in research or development; supplies used in transportation activities; repair supplies, other than parts for production equipment; any tangible personal property that is or is intended to become a component of real property; supplies used to produce exempted gas, electricity, water, heating materials, literature, or liquor.

**History:** This exemption was originally enacted in 1965 as 63-3622(d); custom farmers were added to the production exemption in 1987 by amending 63-3603, definition of farming; contract loggers were added in 1989 by adding 63-3605A. In 1990, logging was moved to a separate section and expanded to allow the exemption to apply to persons who are not primarily engaged in logging. Amended in 1991 in response to the Haener decision (Idaho Supreme Court) by adopting the integrated plant doctrine, exempting supplies used to fabricate or install production equipment, and adding safety supplies (except for logging). Amended in 1996 to add all fuel used in logging trucks.

### **2.1.03 Irrigation Equipment and Supplies *Idaho Code 63-3622W***

Description: Exempts agricultural irrigation equipment and supplies, even if attached to real property, and even if purchased by a contractor for an agricultural irrigation project.

History: Originally enacted in 1975 as 63-3622(f).

### **2.1.04 Pollution Control Equipment *Idaho Code 63-3622X***

Description: Exempts equipment required by regulatory agencies for air or water pollution control.

History: Originally enacted in 1977 as 63-3622(e). Amended in 1997 to add certain dry-cleaning equipment.

### **2.1.05 Broadcast Equipment and Supplies *Idaho Code 63-3622S***

Description: Provides an exemption for equipment and supplies used to produce and broadcast radio and television programs.

History: It was originally enacted in 1975 as 63-3622(w) and was amended in 1987 to add aircraft to the exclusions from the exemption.

### **2.1.06 Publishing Equipment and Supplies *Idaho Code 63-3622T***

Description: Provides an exemption for equipment and supplies used to publish advertising type newspapers that are sold or given away to the public, as long as the paper contains at least 10% editorial comment and advertising revenue is the publisher's primary source of income.

History: This exemption was originally enacted in 1979 as 63-3622(x). The only amendment in 1987 to this exemption was to add aircraft to exclusions from the exemption.

### **2.1.07 Commercial Aircraft *Idaho Code 63-3622GG***

Description: Exempts aircraft purchased for commercial transport of passengers or freight.

History: Enacted in 1988. Amended in 1994 to add any aircraft that are for use outside Idaho.

### **2.1.08 Railroad Rolling Stock and Remanufacturing *Idaho Code 63-3622CC; 63-3622DD***

Description: Provides an exemption for railroad rolling stock and for parts, equipment, and supplies used in the process of remanufacturing railroad rolling stock, whether or not the rolling stock is for resale. Rolling stock must have been used in interstate commerce at least three months prior to rebuild to qualify.

History: Enacted in 1986.

### **2.1.09 Interstate Trucks *Idaho Code 63-3622R(c)***

Description: Exempts trucks weighing over 26,000 pounds that are registered under the international registration plan (or similar prorata system) and trailers that are used in a fleet operating in interstate commerce. Provides a recapture of sales tax on vehicles that are part of a fleet that are not used at least 10% outside Idaho during the calendar year.

History: Enacted in 1989.

#### **2.1.10 Out-of-State Contracts *Idaho Code 63-3622B***

Description: Exempts goods purchased by contractors to install into real property in nontaxing states.

History: Originally enacted in 1965 as 63-3622(b), it was amended in 1993 to extend to non-Idaho contractors.

#### **2.1.11 Trade-in Value *Idaho Code 63-3613(b)2***

Description: Excludes from the taxable sales price any amounts allowed for merchandise traded in on other like goods.

History: Enacted in 1965. Amended in 1990 to include trade-downs and barter.

#### **2.1.12 Sale or Lease of Businesses or Business Assets *Idaho Code 63-3622K(b)(2-5)***

Description: Exempts sales of otherwise taxable merchandise, equipment, and supplies in cases where the entire business operation is undergoing transfer of ownership and the business itself will continue its operations. It also exempts sales of businesses that amount to change in the form of business ownership. It also exempts sales and leases of capital assets between closely related businesses, but only if the sales tax has previously been paid on the capital asset.

History: Originally enacted as 63-3622(l), it was amended in 1967 to add bulk sales and change in form of doing business by adopting a new definition section 63-3612A in 1967. Section 63-3612A was repealed and moved to 63-3622K in 1988, then amended in 1990 to add related business transfers and sales. Amended in 1996 to add leases of assets among family-owned businesses.

#### **2.1.13 Food Stamps/WIC *Idaho Code 63-3622EE; 63-3622FF***

Description: Exempts goods purchased with WIC checks and federal food stamps.

History: Mandated in 1987 by the federal government.

#### **2.1.14 Motor Vehicles Used Outside of Idaho *Idaho Code 63-3622R(a)***

Description: Exempts vehicles under 26,000 pounds bought in Idaho for use outside Idaho. It also applies to trailers. (See 2.1.09 Interstate Trucks for vehicles over 26,000 pounds and trailers used in interstate commerce.)

History: Originally enacted as 63-3622(q) in 1965, it exempted vehicles sold in Idaho for use out-of-state. It was amended in 1989 to add weight limit.

#### **2.1.15 Common Carrier Purchases and Out-of-State Sales *Idaho Code 63-3622Q, 63-3622P***

Description: Exempts goods delivered to buyers outside Idaho (63-3622Q) and in-state purchases by common carriers for use outside Idaho if transported out of Idaho under a bill of lading (63-3622P).

History: Originally enacted as 63-3622(p) and 63-3622(o) in 1965.

**2.1.16 Donations of Real Property to Idaho Government *Idaho Code 63-3621(m)***

Description: Allows an exemption from use tax for goods that are donated to either the State of Idaho or to a nonprofit listed in 63-3622O, where the goods are incorporated into real property.

History: Enacted in 1991.

**2.1.17 Incidental Sales of Tangible Personal Property *Idaho Code 63-3609***

Description: Exempts goods sold incidentally when selling real property, such as a stove and refrigerator included with a home.

History: Enacted in 1985.

**2.1.18 Lodging, Eating, and Drinking Places *Idaho Code 63-3612***

Description: Allows these industries an exemption for nondepreciable goods that are consumed by customers, such as guest hand soap provided in a motel room.

History: Enacted in 1988.

**2.1.19 School Lunches and Senior Citizen Meals *Idaho Code 63-3622J***

Description: Exempts federal meals programs for youth and elderly.

History: School Lunch programs were exempted in 1965 as 63-3622(k). Amended in 1974 to add sale of meals to aging persons under the Older Americans Act Program.

**2.1.20 Drivers Education Automobiles *Idaho Code 63-3622R(d)***

Description: Exempts the value of motor vehicles that are temporarily donated to drivers education programs.

History: Enacted in 1995.

**2.1.21 Ski Lifts and Snowgrooming Equipment *Idaho Code 63-3622Y***

Description: Exempts the lifts, snow groomers, and snowmaking equipment used by the owner of a ski area.

History: Enacted in 1995.

**2.1.22 Clean Rooms *Idaho Code 63-3622NN***

Description: Exempts any tangible personal property that is used in or becomes a part of a “clean room” used to manufacture semiconductors. Also includes property that is used to maintain a clean room.

History: Enacted in 1999. Extended to include clean rooms used for research and development in 2005.

**2.1.23 Alternative Electricity-Producing Equipment *Idaho Code 63-3622QQ***

Description: Exempts machinery and equipment used in alternative types of electricity production. To qualify, the facility must have a capacity of at least 25 kilowatts. The alternative

methods that qualify for this exemption are fuel cells, low-impact hydro, wind, geothermal, cogeneration, solar, landfill gases, and biomass.

History: Enacted in 2005 and sunsets July 1, 2011.

#### **2.1.24 Research and Development Equipment *Idaho Code 63-3622RR***

Description: Exempts tangible personal property used in research and development activities.

History: Enacted in 2005.

#### **2.1.25 Corporate Headquarters Construction *Idaho Code 63-2908***

Description: This rebate is contingent on a taxpayer qualifying under the “Idaho Corporate Headquarters Incentive Act of 2005.” It provides a sales and use tax rebate for all sales and use taxes paid on property constructed, located, or installed in the “project site” (as specified in 63-2902) through December 31, 2009. General qualification criteria are specified in 63-2902, and can be summed up as making an investment of at least \$50 million in new corporate headquarters facilities and adding at least 500 new jobs that either a) each pay over \$50,000 per year, or b) that average \$65,000 per year.

History: Enacted in 2005.

#### **2.1.26 Small Employer Headquarters Construction *Idaho Code 63-4408***

Description: This rebate is contingent on a taxpayer qualifying under the “Idaho Small Employer Incentive Act of 2005.” It provides a sales and use tax rebate for 25% of sales and use taxes paid on property constructed, located, or installed in the “project site” (as specified in 63-4402) through December 31, 2009. General qualification criteria are specified in 63-4402, and can be summed up as making an investment of at least \$1 million in new headquarters facilities and adding at least 1 new job paying at least \$50,000 per year for each \$100,000 of investment in new headquarters facilities.

History: Enacted in 2005.

#### **2.2.01 Motor Fuels *Idaho Code 63-3622C***

Description: Exempts motor fuels subject to motor fuels tax; exempts off-road fuels loaded in Idaho and used outside Idaho.

History: Originally enacted in 1965 as 63-3622(c). Exempted on road use of motor fuels; amended in 1986 to exempt locomotive fuels unless loaded and burned off in Idaho.

#### **2.2.02 Heating Materials *Idaho Code 63-3622G***

Description: Exempts wood, coal, gas, and petroleum products used as a source of heat for either industrial or domestic purposes.

History: Originally enacted in 1965 as 63-3622(g).



### **2.2.03 Utility Sales *Idaho Code 63-3622F***

Description: Exempts sales of natural gas, electricity, and water delivered to consumers by means of wires, pipes, mains, or similar systems.

History: Originally enacted in 1965 as 63-3622(f).

### **2.2.04 Used Mobile Homes *Idaho Code 63-3622R(b)***

Description: Exempts the sale of used manufactured homes from the sales tax.

History: Original 63-3622(q) amended in 1976 to exempt used manufactured homes.

### **2.2.05 Vending Machines and Amusement Devices *Idaho Code 63-3622II***

Description: Exempts coin-operated machines that vend a taxable product or service.

History: Enacted in 1990.

### **2.2.06 Prescriptions and Durable Medical Equipment *Idaho Code 63-3622N***

Description: Exempts most prescription medical items.

History: This exemption was originally enacted as 63-3622(q) in 1967 to exempt prescription drugs. It was amended in 1971 to add prescription oxygen and amended in 1976 to add prosthetics, limbs, wheelchairs, hearing aides, and crutches. It was amended in 1990 to add durable medical equipment, and numerous other prescription items. Amended in 1992 to clarify that dentures and other orthodontic appliances are taxable when purchased by the practitioner. Amended in 1998 to reverse the 1992 amendment, and provide that dental prostheses and other orthodontic appliances, except fillings, are exempt.

### **2.2.07 Funeral Caskets *Idaho Code 63-3622U***

Description: Exempts goods sold in conjunction with a funeral.

History: Originally enacted in 1977 as 63-3622(y).

### **2.2.08 Containers *Idaho Code 63-3622E***

Description: Exempts containers that are part of goods for sale, including returnable containers.

History: Originally enacted in 1965 as 63-3622(e).

### **2.2.09 Nonprofit Literature *Idaho Code 63-3622I***

Description: Exempts literature published and sold by 501(c)(3) nonprofit organizations.

History: Originally enacted in 1965 as 63-3622(j), exempting only religious literature. Amended in 1989 to include literature of all 501(c)(3) nonprofit organizations in response to the U.S. Supreme Court ruling in *Texas Monthly vs. Bullock*. Amended in 1999 to include alternative forms, including audio-visual, magnetic, optical, and other machine-readable media.

#### **2.2.10 Official Documents *Idaho Code 63-3622AA***

Description: Exempts sales of documents when the fee for the document is set by *Idaho Code*.

History: Originally enacted in 1984.

#### **2.2.11 Precious Metal Bullion *Idaho Code 63-3622V***

Description: Exempts sales of precious metal bullion and coins.

History: Originally enacted in 1982 as 63-3622(z).

#### **2.2.12 Idaho Commemorative Silver Medallions *Idaho Code 63-3622PP***

Description: Exempts sales of Idaho commemorative silver medallions.

History: Originally enacted in 2003.

#### **2.2.13 New Manufactured Homes or Modular Buildings *Idaho Code 63-3613(c)***

Description: Excludes 45% of the sales price of new manufactured homes and modular buildings from the taxable sales price.

History: Originally exempted 60% of the sales price of mobile homes when enacted in 1965. It was amended in 1976 to exempt 45% and add modular buildings (which were previously treated as real property improvements and taxed on materials as built).

#### **2.2.14 Telecommunications Equipment *Idaho Code 63-3613(b)10, 63-3621(a)***

Description: Exempts from taxation the amount of discount or price reduction that is offered as an inducement to commence or continue telecommunications service.

History: Enacted in 1996.

#### **2.3.01 Construction *Idaho Code 63-3609***

Description: Sales tax is paid on the cost of materials that are used in construction projects, but the labor component is generally not taxed. Mobile and manufactured homes are taxed on 55% of the sales price [*Idaho Code 63-3613(c)*] in order to give them equivalent treatment.

History: The original language of the sales tax defined a "sale" as any transaction involving the exchange of tangible personal property for a consideration (*Idaho Code 63-3612*). In the section of the Sales Tax Act defining a retail sale it is stated that "all persons engaged in constructing, altering, repairing or improving real estate are consumers of the material used by them; all sales to or use by such persons of tangible personal property are taxable whether or not such persons intend resale of the improved property (*Idaho Code 63-3609*)."

#### **2.3.02 Agricultural and Industrial Services**

Description: This category of services includes agricultural soil preparation, planting, cultivating, and harvesting; farm management; forestry service; and mining services. NAICS major groups 115 and 213 are included in this category.

History: Originally excluded from definition of sales tax base.

### **2.3.03 Transportation Services *Idaho Code 63-3613(b)7***

Description: Most charges for transportation of freight and passengers are exempt from the sales tax (*Idaho Code 63-3613(b)7*). Exceptions (i.e., taxable transportation charges) include transportation of manufactured homes by the dealer (*Idaho Code 63-3613(b)7*), the cost of transportation prior to the sale (*Idaho Code 63-3613(a)3*), and receipts from intrastate transportation of passengers or freight by air charter [*Idaho Code 63-3612(j)*]. NAICS major groups 481 through 492 are included in this category.

History: Transportation services have generally been exempt since the enactment of sales tax in 1965. The exclusion for transportation of manufactured homes was added in 1986. Air charter transportation of freight and passengers was made taxable in 1988.

### **2.3.04 Information Services**

Description: Subscriptions or charges for one-way and two-way transmissions of signals containing information (sound, images, data, etc.) and information services (internet providers, etc.) are not taxed. This exemption consists mostly of local and long-distance telephone service and cable television. NAICS major groups 515, 516, 517, 518, and 519 are included in this category.

History: Communications have been exempt since the enactment of the sales tax in 1965.

### **2.3.05 Repairs *Idaho Code 63-3613(b)4***

Description: The labor charges associated with repairing or installing tangible personal property are generally not taxable as long as they are separately stated on the bill. NAICS major group 811 is included in this category.

History: Exempt since enactment of the sales tax in 1965.

### **2.3.06 Professional Services**

Description: Legal, accounting, engineering, architectural, consulting, scientific research, and advertising services fall within this category. NAICS major group 541 is included in this category.

History: Exempt since enactment of the sales tax in 1965.

### **2.3.07 Business Services**

Description: Office services, employment services, building services, employment agencies, facility services, and security agencies are some of the major elements of this category. NAICS major groups 561 and 562 are in this category.

History: Exempt since enactment of the sales tax in 1965.

### **2.3.08 Personal Services**

Description: Laundry and dry cleaning, barbers and beauticians, shoe repair, funeral services, massage parlors, and escort services are among the elements of the personal services major group. NAICS major group 812 is this category.

History: Exempt since enactment of the sales tax in 1965.

### **2.3.09 Health and Medical Services**

Description: Doctors, dentists, hospitals, and nursing home services are the principal elements of this category. NAICS major groups 621 through 623 are in this category.

History: Exempt since enactment of the sales tax in 1965.

### **2.3.10 Social Services**

Description: Adult and child day care, residential care, and adoption services are some of the principal elements of this category. NAICS major group 624 is this category.

History: Exempt since enactment of the sales tax in 1965.

### **2.3.11 Educational Services**

Description: Elementary and secondary schools, colleges and universities, libraries, vocational schools, driving instruction, flight schools, and modeling schools are among the establishments covered by this category. NAICS major group 611 is this category.

History: Exempt since enactment of the sales tax in 1965.

### **2.3.12 Lottery Tickets and Pari-Mutuel Betting *Idaho Code 67-7439***

Description: Exempts the sale and purchase of lottery tickets and pari-mutuel betting from the sales tax. Also exempts from sales tax any equipment used in lottery operations.

History: Enacted in 1988.

### **2.3.13 Media Measurement Services *Idaho Code 63-3622LL***

Description: Exempts the sale and purchase of any television, radio, newspaper, or other media measurement service.

History: Enacted in 1997.

### **2.3.14 Miscellaneous Services**

Description: This includes all personal service industries not classified elsewhere. Includes pet care, photo finishing, and parking lots and garages. NAICS major group 8129 is in this category.

History: Exempt since enactment of the sales tax in 1965.

#### **2.4.01 Educational Institution Purchases *Idaho Code 63-3622O(1)(a) and 33-5204***

Description: Exempts all purchases by nonprofit colleges, universities, primary and secondary schools. Excludes from exemption schools that primarily teach business, dancing, gymnastics, dramatics, music, cosmetology, writing, exercise, and "other special accomplishments."

History: This was originally enacted as 63-3622(s) in 1967 and amended in 1990 to add non-resident schools with Idaho facilities. It was amended in 1993 to add all non-resident schools not otherwise excluded. 33-5204 was added in 1999 to explicitly add charter schools to this exemption.

#### **2.4.02 Hospital Purchases *Idaho Code 63-3622O(1)(a)***

Description: Exempts all purchases by nonprofit hospitals that are licensed by the state for the care of ill persons. Excludes from exemption nursing homes or "similar institutions."

History: Originally enacted as 63-3622(s) in 1967.

#### **2.4.03 Health Entity Purchases *Idaho Code 63-3622O(1)(a)***

Description: Exempts all purchases by certain specified "health related entities." The list consists of: the Idaho Cystic Fibrosis Foundation, Idaho Epilepsy League, Idaho Lung Association, March of Dimes, American Cancer Society, Mental Health Association, The ARC, The Children's Home Society of Idaho, American Heart Association, Idaho Ronald McDonald House, United Cerebral Palsy, Arthritis Foundation, Muscular Dystrophy Foundation, National Multiple Sclerosis Society, Rocky Mountain Kidney Association, American Diabetes Association, Easter Seals, Idaho Community Action Agencies, Idaho Primary Care Association and its community health care centers, the Idaho Diabetes Youth Program, the Idaho Women's and Children's Alliance, and Special Olympics Idaho. It also includes the local or regional chapters or divisions of these entities.

History: Amended in 1980 to add first list of health related entities. Amended in 1986, 1990, 1999 and 2000 to expand the list.

#### **2.4.04 Canal Company Purchases *Idaho Code 63-3622O(1)(a)***

Description: Exempts all purchases by canal companies. Canal companies are defined as nonprofit corporations whose sole purpose is operating and maintaining dams, reservoirs, canals, lateral and drainage ditches, pumps, and pumping plants.

History: Originally enacted in 1967 as 63-3622(s).

#### **2.4.05 Forest Protective Association Purchases *Idaho Code 63-3622O(1)(a)***

Description: Exempts all purchases by forest protective associations. Forest protective associations are associations that detect, prevent, and suppress forest or range fires. They include only those associations that contract with the State of Idaho pursuant to Chapter 1, Title 38, *Idaho Code*.

History: Enacted in 1979.

#### **2.4.06 Food Bank Purchases *Idaho Code 63-3622O(1)(b, c)***

Description: Exempts all purchases by food banks or soup kitchens. Includes the Idaho Food Bank Warehouse, Inc. by specific reference, and also includes any other nonprofit corporation or association "one of whose" primary purposes is the furnishing of food or food products to others without charge.

History: Enacted in 1991. Amended in 1998 to add "growing" to the list of activities that qualify for this exemption.

#### **2.4.07 Nonsale Clothier Purchases *Idaho Code 63-3622O(1)(d)***

Description: Exempts donations or sales of clothes to nonsale clothiers. Nonsale clothiers are defined as any nonprofit corporation or association "one of whose" primary purposes is the furnishing of clothes to others without charge.

History: Enacted in 1992.

#### **2.4.08 Centers for Independent Living *Idaho Code 63-3622O(1)(e)***

Description: Exempts sales to or purchases by centers for independent living. Centers for independent living are defined as private, non-profit, non-residential organizations where at least 51% of the governing board are individuals with disabilities.

History: Enacted in 1997.

#### **2.4.09 State of Idaho and Local Government Purchases *Idaho Code 63-3622O(1)(f)***

Description: Exempts Idaho governmental agencies from paying sales tax on purchases.

History: Enacted in 1997; exemption was done by Tax Commission regulation from enactment of the sales tax to 1997.

#### **2.4.10 Ronald McDonald House Rooms *Idaho Code 63-3622O(5)***

Description: This exempts the renting of a place to sleep by the Ronald McDonald House.

History: Enacted in 1997.

#### **2.4.11 INL Research and Development Purchases *Idaho Code 63-3622BB***

Description: Exempts goods used for research and development at the Idaho National Laboratory (INL).

History: It was originally enacted in 1967 and exempted all federal research and development and nuclear fuel reprocessing under 63-3615. It was amended in 1969 to limit to INL only. It was recodified in 1985 as 63-3622BB and removed nuclear fuel reprocessing from the exemption.

#### **2.4.12 Motor Vehicle Purchases by Family Members *Idaho Code 63-3622K(c)***

Description: Exempts sales of motor vehicles between family members related within the second degree of consanguinity.

History: Section 63-3612A was amended in 1980 to add the sale of motor vehicles to family members. It was repealed and moved to 63-3622K in 1988.

**2.4.13 Sales by 4-H and FFA Clubs at Fairs *Idaho Code 63-3622K(b)7***

Description: Exempts sales of animals by any 4-H club or FFA club held in conjunction with a fair or the Western Idaho Spring Lamb Sale.

History: Enacted in 1979 by amending 63-3612A. Moved to 63-3622K in 1988.

**2.4.14 Sales by Non-Retailers (Yard and Occasional Sales) *Idaho Code 63-3622K(b)(1,6); 63-3622H***

Description: Exempts sales of items by individuals who are not retailers and who are not behaving as a retailer. Covers transactions such as occasional yard sales, occasional classified ad sales, etc. Motor vehicle sales are specifically excluded from this exemption.

History: Originally enacted as 63-3622(j, l) in 1965.

**2.4.15 Sales by Indian Tribes on Reservations *Idaho Code 63-3622Z***

Description: Exempts sales by Indian Tribal Enterprises from sales and use tax. This exemption allows a tribal enterprise to make sales to both Indians and non-Indians without collecting sales tax. Further, it provides that no use tax applies to the purchase even if the non-Indian removes the goods from the reservation.

History: Originally enacted as 63-3622(aa) in 1984; exempted sales of tangible personal property by tribes within reservation boundaries; amended in 1987 to include sales of services and to define reservation.

**2.4.16 Sales of Meals by Churches to Members *Idaho Code 63-3622J***

Description: Exempts meals sold at church functions to members of the congregation.

History: Originally enacted as 63-3622(k) in 1965.

**2.4.17 Sales by Outfitters and Guides *Idaho Code 63-3613(b)9***

Description: Allows outfitters to exclude from the taxable amount charged to their customers the federal fees imposed on outfitters for the right to use recreational sites.

History: Enacted in 1990. Amended in 1994 to eliminate the provision that the federal fees must be for the purpose of managing the land or water upon which the outfitting occurs.

**2.4.18 Sales Through Vending Machines *Idaho Code 63-3613(e)***

Description: Allows retailers selling products through vending machines for \$1.00 or less to pay tax on 117% of their acquisition cost of the products rather than on the retail sales price.

History: Enacted in 1977.

#### **2.4.19 Auto Manufacturer Rebates *Idaho Code 63-3613(b)8***

Description: Allows dealers to deduct the amount of a rebate given to the buyer, by the motor vehicle manufacturer, from the taxable sales price of the vehicle.

History: Enacted in 1990.

#### **2.4.20 Incidental Sales of Churches *Idaho Code 63-3622KK***

Description: Exempts sales by churches that do not regularly compete with private enterprise.

History: Enacted in 1990.

#### **2.4.21 Federal Excise Tax Imposed at Retail Level *Idaho Code 63-3613(b)5***

Description: Excludes retail level federal excise taxes from the taxable sales price.

History: Originally enacted in 1965.

#### **2.4.22 Federal Constitutional Prohibitions *Idaho Code 63-3622A***

Description: State cannot tax goods when prohibited by the U.S. Constitution.

History: Originally enacted in 1965 as 63-3622(a).

#### **2.4.23 Other Federal and State Statutory Prohibitions**

Description: Exemptions granted from state sales tax by other state statutes and by federal statutes, such as the American Red Cross, Amtrak, Credit Unions, Emergency 911, Federal Intermediate Credit Banks, Federal Land Banks, Foreign Diplomats, Idaho Health Facility Authority, Idaho Housing Authority, Idaho Life and Health Insurance Guaranty Association, Idaho Onion Commission, Idaho Potato Commission, Idaho Turnpike Authority, Idaho Wheat Commission, Jr. College Dormitory Housing Authority, Production Credit Association, and Regional Airport Authority.

History: Varies by statute.



## CROSS REFERENCE TABLE

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1.1.03	Elderly Dependent Credit	63-3025D
1.1.04	Youth and Rehabilitation Credit	63-3029C
1.1.05	Schools, Libraries, and Museums Credit	63-3029A
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1.1.09	Long-Term Care Insurance Deduction	63-3022Q
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